

Open

Audit Committee

Information Pack



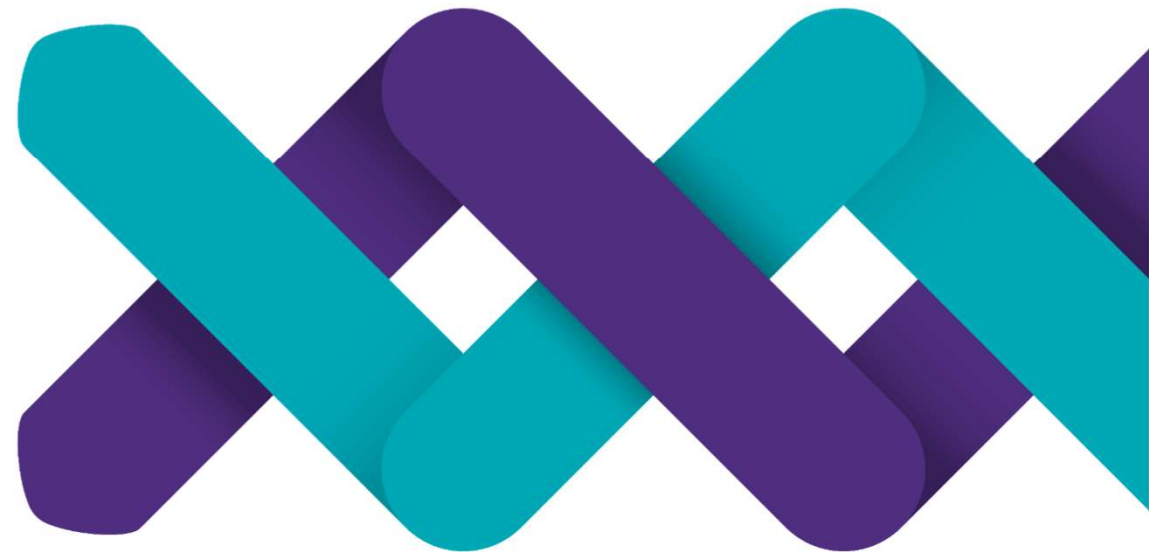
Audit Committee Information Pack

Paper Number	Subject	Page Number
1.	Audit Progress Report and Sector Update	3 - 15
2.	Informing the Audit Risk Assessment for WFDC	16 - 44
3.	External Audit Plan for WFDC	45 - 62
4.	Internal Audit Plan 2020-21	63 - 79
5.	Internal Audit Monitoring Briefing Note	80 - 83
6.	Annual Governance Statement Action Plan 2018~19	84 - 96
7	Update on Public Sector Audit Appointments Limited (PSAA) Audit Matters – 7.1 - Consultation on Scale of Audit Fees for 2020/21 7.2 - WFDC Response to Consultation 7.3 - Letter from the PSAA 7.4 - PSAA Future Procurement and Market Supply Options Review - Final Report	97 - 107 108 109 - 112 113 - 143
8.	Risk Management - Corporate Risk Register	144

Audit Progress Report and Sector Update

Wyre Forest District Council
Year ending 31 March 2020

25 March 2020



Contents

Section	Page
Introduction	3
Progress at March 2020	4
Audit Deliverables	6
Sector Update	7

Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in December 2019, and are presenting the Audit Plan to this committee.

We have had one interim visit and the final visit is planned for 9 March 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The results of our work will be reported in the May progress report.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 9 for more details.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 claim was completed by the 30 November deadline.

We will soon be planning for the audit of the 2019/20 claim. We have reflected on our experience on the 2018/19 audit and due to the extent of the procedures, cases tested and the quality standards set by DWP, we are finding we are currently not recovering our costs with the fee previously agreed. We consider a more appropriate fee would be in the region of £12,000 which would be an increase of £2,250 from the prior year. We will set this out more formally in a letter to the Council.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Letter setting out the proposed fee variations dated 10 January 2020. Fee variations will be agreed with PSAA.</p>	January 2020	In progress
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Within the committee papers
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	May 2020	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

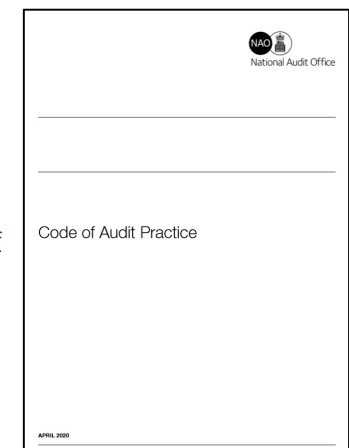
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

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



Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>.

Financial Reporting



Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

Informing the audit risk assessment for Wyre Forest District Council

Year ended 31 March 2020

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Paper No. 2

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.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	5
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	12
Impact of Laws and Regulations	13
Going Concern	15
Going Concern Considerations	16
Related Parties	20
Accounting Estimates	22
Appendix A Accounting Estimates	24

Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit 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 Audit Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit 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 Audit Committee and supports the Audit 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 Committee's oversight of the following areas:

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

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit 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
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>The following areas could have a significant impact on the financial statement for 2019-20:</p> <ul style="list-style-type: none"> • Valuation of fixed assets • Pensions – fund valuation and legal rulings
Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, we consider the accounting policies to be appropriate
Is there any use of financial instruments, including derivatives?	Financial instruments are carried in the balance sheet and further disclosures are provided in the notes, no new categories are expected in 2019-20
Are you aware of any significant transactions outside the normal course of business?	No

General Enquiries of Management

Question	Management response
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Other than in house solicitors, please provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years.	Greenhalgh Kerr solicitors – Council tax/Business Rates debt recovery None on work for open litigations or contingencies f
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements?	Not that we are aware of
Please you provide details of other advisors consulted during the year and the issue on which they were consulted.	Financial advice was obtained during 2019-20 from: LG Futures Ltd, PWC taxation advice, Link Asset Management – treasury management advisors, West Midlands Employers – HR/employment advice, David Airey Consulting – Council Tax and Business Rates advice, Analyse Local – Business Rates advice, Gallaghers Ltd – Insurance retender/advice, Jones Valerio – Property portfolio management advice, Bruton Knowles – Asset valuation advice, Finance Birmingham – Development Loans Fund Management, Property acquisition due diligence - Avison Young, Lambeth Smith Hampton,

Fraud

Paper No. 2

Matters in relation to fraud

ISA(UK&I)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 Committee and management. Management, with the oversight of the Audit 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 Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority'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 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 Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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 the Authority's management.

Fraud risk assessment

Question	Management response
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the Authority's risk management processes link to financial reporting?</p>	<p>It is acknowledged that there is always a risk of fraud being committed against the Council. There is a zero tolerance towards fraud. Arrangements are in place to prevent and detect fraud, and these include the work of the Internal Audit to identify areas of risk including high profile areas of Council Tax and Housing Benefit Fraud. The risk of misstatement in the financial statements due to undetected fraud is low. The fraud resource within Internal Audit and Compliance Officers within the Revenues & Benefits Team work to mitigate risk of fraud.</p> <p>Internal Audit take account of fraud risks in their planning of audit reviews, responding appropriately to fraud risks and enhancing controls further to protect against the risk of fraud.</p> <p>Compliance Officers take a proactive approach and regularly review Council Tax discounts and exemptions to minimise loss of income and reduce the risk of fraud.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> ■ Council Tax ■ Benefit fraud ■ Single person discount <p>Following the transfer of the responsibility for Housing Benefit Fraud together with dedicated benefits investigation team to the DWP, Wyre Forest has invested in new resource to work on fraud/compliance in respect of local taxes/Council Tax Reduction Scheme within the Revenues and Benefits section. This work has been progressed using funding from Worcestershire County Council to further combat collection fund fraud and increase the net collectible debit for both Council Tax and Business Rates. Whilst all preceptors will benefit from this as well as this Council the County takes the largest proportion, hence the funding and drive to work together</p>
<p>Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There are no material instances of fraud that have been identified during the year. See above for specific fraud risks.</p> <p>The Audit Committee receive an annual update on the Counter Fraud Arrangements in place within the Council from the S151 Officer and Audit Manager.</p>

Fraud risk assessment

Paper No. 2

Question	Management response
<p>Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>There are no material instances of fraud that have been identified during the year.(see above for specific areas of fraud)</p> <p>Evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Authority. The Internal Audit plan incorporates consideration of potential fraud. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. We do not consider that any material fraud is occurring. CLT considered the Home Office report exploring the threat of Serious and Organised Crime and agreed a schedule of actions to raise awareness and mitigate risk which is incorporated into the work of the Internal Audit team.</p>
<p>What processes does the Authority have in place to identify and respond to risks of fraud?</p>	<p>Fraud Risks are included by Internal Audit in the planning process and Internal Audit act as an effective Internal Control</p>
<p>How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> - does the process for reviewing the effectiveness the system of internal control exist and work effectively? - do internal controls exist and work effectively, including segregation of duties? <p>If not, where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)?</p>	<p>The annual assurance audit report 2019 provided an opinion on the Council's internal control environment and systems of internal control giving reasonable assurance over key business processes and financial systems.</p> <p>Internal controls are considered within all internal audit reviews and recommendations made based on observations identified during the review are made to improve the operation on systems reviewed.</p> <p>Yes. Fraud risks are included by Internal Audit in the planning process and Internal Audit act as an effective internal control.</p> <p>There is a corporate fraud role aligned to the Internal Audit Team to raise awareness for both Officers and Members and a dedicated Corporate Fraud email address for the reporting of concerns and any identified fraudulent attempts that have not been caught to by the filtering software.</p> <p>Compliance Officers take a proactive approach and regularly review Council Tax discounts and exemptions to minimise loss of income and reduce the risk of fraud.</p> <p>There is regular budget monitoring with regular updates to CLT and Cabinet to prevent/deter the potential for the overriding of controls.</p>

Fraud risk assessment

Question	Management response
Are there any areas where there is potential for misreporting?	There is regular budget monitoring with regular updates to CLT and Cabinet to prevent/deter the potential for the overriding of controls.
<p>How does the Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>There is a Fraud Strategy and a Whistleblowing procedure in place which explain the procedures to follow. Both documents are available to all staff on the Council's intranet.</p> <p>The Confidential Reporting Whistleblowing Policy and Procedure forms part of the Conduct and Performance Management, HR guidance.</p> <p>The Fraud Strategy forms part of the Corporate Fraud suite of information which is referenced regularly within Wyred Weekly to ensure all staff and members are aware of their responsibilities.</p> <p>No significant issues have been reported. Both the Fraud Strategy and Whistleblowing procedure outline the process to be followed. Corporate Fraud is aligned to the Internal Audit Team to provide guidance and with a dedicated Corporate Fraud email address for the reporting of concerns and any identified fraudulent attempts that have not been caught to by the filtering software.</p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	There are not any significantly high-risk posts identified however Disclosure Scotland checks are undertaken as standard practice for all employees with access to personal or sensitive data.
<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	None have been reported.

Fraud risk assessment

Question	Management response
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit provide the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. These are considered at the committee where the external auditors also attend and may be asked to comment. Training covers this key area and the S151 Officer and the Audit Manager provide reports on compliance with auditing standards and internal controls. Risk is high on the Audit Committee agenda and the committee are briefed on key risks such as fraud prevention and detection in relation to the audit plan. Reports would be made on any specific cases of fraud with specific briefings to the Chairman and/or Vice-Chairman as appropriate. The Audit Committee are updated on the progress in respect of counter fraud arrangements, with an update to the Audit Committee in July.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None have been reported</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>None have been reported</p>

Law and regulations

Matters in relation to laws and regulations

ISA(UK&I)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 Committee, is responsible for ensuring that the Authority'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 Committee as to whether the entity 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
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Monitoring Officer is a member of the Leadership team, reports regularly on key issues and liaises directly with the Head of Paid Service and would report to Council on any issues. The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> • complying with the law of the land (including any relevant Codes of Conduct); • complying with any General Guidance issued, from time to time, by the Monitoring Officer; • making lawful and proportionate decisions; and • generally, not taking action that would bring the Council, their offices or professions into disrepute. <p>This officer has access to all Council committee reports. The Monitoring Officer raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the monitoring officer would get involved at an early stage. We have a suite of internal policies and procedures such as anti-bribery policy, anti-money laundering policy etc. Internal audit review adherence to regulations. The Monitoring officer reviews compliance with the Council's Constitution.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends Audit Committee meetings and advises members on any areas of concern.</p>
<p>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?</p>	<p>None</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Potential for claim against the construction contractors of Wyre Forest House still exists.</p>

Impact of laws and regulations

Question	Management response
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The Council for all litigation or claims takes external advice from Counsel on the strength of the Council's claim
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None

Going Concern

Matters in relation to going concern

ISA(UK&I)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
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>The Council has a robust service and financial planning strategy, adequate reserves, access to borrowing from Public Works Loans Board, a strong track record of delivering savings and a balanced budget has been prepared. This means that we will continue to prepare the accounts on a going concern basis.</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>Yes – financial assumptions in the Statement of Accounts, revenue budget, capital programme, capital strategy, treasury management strategy and Council plan are all consistent.</p>

Going concern considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
Have there been any significant issues raised with the Audit 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)	No
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?	No

Going concern considerations

Question	Management response
<p>Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes although given staffing reductions to meet savings targets, there are some areas which are being addressed through workforce planning processes as far as possible. The management restructure in Community Well-Being and Environment Directorate was subject to external review and is being carefully managed.</p> <p>The recruitment process, including job descriptions and person specifications are designed to ensure the appropriate skills and experience are sought. Restructuring/service transformation have a focus on ensuring skills and experience to deliver services are in place. The Council is active in terms of workforce planning, which aligns with service planning and delivery of service objectives. There is a corporate learning programme in place for managers and other employees as well as specific training relevant to specific roles. There is a strong focus on organisational development, including commitment to Leadership programmes.</p> <p>The Council will engage external professionals where specific skills are required that are not available in-house, or agency workers will be engaged when necessary to fill essential roles on a short-term basis. Normal procurement rules apply which ensures appropriate governance in place. West Midlands Employers are advising on the Pay and Grading Review approved at September 2019 Council.</p>
<p>Does the Authority have procedures in place to assess its ability to continue as a going concern?</p>	<p>There is a robust Service & Financial Planning process and Strategy in place. Regular financial monitoring takes place with regular updates being presented to Corporate Leadership Team and Cabinet; cost improvement plans are put in place for areas of significant pressure.</p> <p>Overall spend is within budget and the Council has a long track record of strong financial management being under budget and delivering ongoing savings in accordance with the budgets approved for each year.</p>
<p>Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?</p>	<p>None known</p>

Going concern considerations

Question	Management response
<p>Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p><i>Yes – through the Statement of Accounts.</i></p> <p><i>The Audit Committee receives both the draft (circulate by email) and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview/training session highlighting key matters in the accounts and again providing opportunity for queries. Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having underspent its budget for more than 10 consecutive years despite having delivered £xm of ongoing budget savings.</i></p>

Related Parties

Matters in relation to Related Parties

Local Authorities are 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 authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- 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 authority, or of any entity that is a related party of the authority.

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 Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 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
<p>What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> ▪ Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. ▪ Annual return from Members and senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. ▪ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. ▪ Review of related information with subsidiaries, companies and joint ventures, e.g. accounts. ▪ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation ▪ Review of year end debtor and creditor positions in relation to the related parties identified. ▪ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Accounting estimates

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 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 Authority 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 Authority is using as part of its accounts preparation; these are detailed in Appendix A 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 Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
<p>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)?</p>	<p>No, all the significant accounting estimates are reported in Appendix A.</p>
<p>Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes, management arrangements are suitable. The Final Accounts Closedown has regular Chief Officer reviews scheduled. Accounting Policies are reviewed annually with any changes reported to Audit Committee. Early dialogue with External Auditors is also undertaken where the impact of the accounting estimates are considered to be significant. The accelerated closedown may require the use of more estimates and in each case, the reasonableness of such estimates will be assessed and assurance provided for the External Auditors.</p>
<p>How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>As detailed above, regular reviews are undertaken during the Accounts Closedown process. Accounting Policies are reviewed annually with any changes specifically reported to Audit Committee.</p>

Appendix A Accounting Estimates

Paper No. 2

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 and equipment valuations	Valuations are made by the internal valuer (local RICS/CIB Member) as well as external valuer in line with RICS guidance on the basis of 5 year valuations with interim reviews.	Council's Estates Surveyor notifies the external valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation in liaison with the Principal Accountant	Yes - Use the Internal and external local RICS/CIB Member	Valuations are made in-line with RICS guidance and the CIPFA code of Practice - reliance on expert	No
Estimated useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> · Buildings 50 years (or longer where certified by a qualified valuer) · Equipment/vehicles 7 - 10 years · Plant 10 years 	Consistent asset lives applied to each asset category.	Use the external valuer (RICS qualified)	The useful lives of property are recorded in accordance with the recommendations of the external RICS qualified valuer.	No

Appendix A Accounting Estimates (continued)

Paper No. 2

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	Depreciation is provided for on property, plant and equipment with a finite useful life on a straight-line basis	Consistent application of depreciation method across assets	No	The length of the life is determined at the point of acquisition and is subsequently reviewed at revaluation	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 by the Council's Estates Surveyor at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal local RICS/CIB Member for valuations.	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert	No
Measurement of Financial Instruments	The Council follows the requirements of the CIPFA Code of Practice 2018-19 and obtains measurement from treasury consultants	Take advice from Finance (retained treasury advisors) professionals	Yes – Link Asset Services	Take advice from finance Professionals (retained treasury advisors)	No

Appendix A Accounting Estimates (continued)

Paper No. 2

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?
Provision for Liabilities	S151 Officer makes the Assessment based on accounting code and information notified by Service Directors and Managers.	Services Directors and Managers notify the S151 Officer	No	This would be considered on individual circumstances	N/A
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	The finance team use the aged debt listing to calculate the provision	No	Consistent proportion used across aged debt as per the Code	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?
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. This is achieved through careful attention to budgetary control and high degree of compliance with the purchase ordering system. We continue to accrue for all except the lowest value invoice (de minimis adopted is £1,000)	The date of receipt of the good and services is used in the estimation of the accrual together with the order value	No	The use of actual dates and known values minimises the degree of uncertainty. Where accruals have had to be estimated the latest available information has been used	No
Non-Adjusting Events – events after the balance sheet date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Services Directors and Managers notify the S151 Officer	No	This would be considered on individual circumstances	N/A

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 experts. These figures are based on making % adjustments to the closing values of assets/liabilities.	The S151 officer sits on the pensions board. The actuaries are invited to meet with board members to explain and justify the estimates and assumptions used. The Board provide rigorous challenge. The assumptions for WFDC and shared service pensions are considered independently to ensure that the assumptions are relevant and valid for each scheme. Opportunity is provided to vary assumptions where discussions reveal that they should be amended.	Yes - The Authority are provided with an actuarial report by Mercers (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. The potential impact of Brexit has been discussed with the actuaries and will be factored into estimates as appropriate.	No

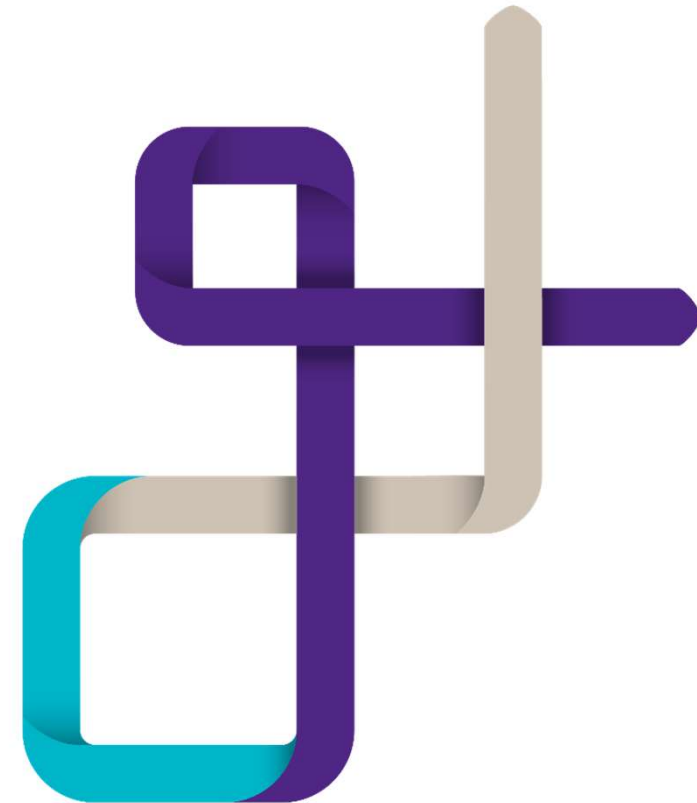




External Audit Plan

Year ending 31 March 2020

Wyre Forest District Council
March 2020



Contents



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Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Significant risks identified
4. Other risks identified
5. Other matters
6. Materiality
7. Value for Money arrangements
8. Audit logistics & team
9. Audit fees
10. Independence & non-audit services

Page

- 3
- 4
- 5
- 8
- 9
- 10
- 11
- 12
- 13
- 15

Appendix

- A. Audit quality – national context

17

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

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1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

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

Significant risks

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

- Management override of control,
- The revenue transactions include fraudulent transactions (this is rebutted, please see page 5)
- Valuation of land and buildings, and
- Valuation of net pension fund liability

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

Materiality

We have determined planning materiality to be £1.0m (PY £1.07m) for the Authority, which equates to approximately 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £50,000 (PY £53,200).

Value for Money arrangements

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

- Sustainable resource deployment: planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

Audit logistics

Our interim visit is taking place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our total estimated fee for the audit will be £46,181 (PY: £42,181) for the Authority, subject to the Authority meeting our requirements set out on page 13 -14 and PSAA approval.

Independence

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

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Wyre Forest District Council, the net revenue budget will have reduced from £16.4m in 2009-10 to £11.59m in 2022-23 based upon current plans, a reduction of 27%. A key source of current funding is New Homes Bonus (NHB) and the expectation in the medium term financial plan is that this will reduce from £906k in 2019/20 to £63k by 2022/23. There is a continuing lack of clarity around the fair funding review, with financial plans projecting forward an increasing funding gap to reflect potential reductions in Government Funding streams such as NHB, Business Rates and Revenue Support Grant.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

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

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

Implementation of IFRS 16 - Leases

This standard is due to be implemented in 2020/21 although disclosures will be required in the 2019/20 financial statements. We are discussing the progress the Council is making with understanding the potential impact of this standard. We have included this as an 'other' risk later in the Audit Plan.

Spending gap

The Council had around £5m in general fund reserves and almost £8m earmarked reserves as at 31 March 2019. The financial strategy is anticipating a funding gap of £1.74m by 2022/23. There is a continuing focus on identifying savings along with some use of reserves over the period. A number of measures have been adopted to reduce the spending gap, both through savings and maximising income.

The Council has a £26.5m capital portfolio fund and a £10m development fund, the ambition of both is to support economic regeneration and provide rental income. It is anticipated that during 2020/21 the portfolio fund will be fully committed and to date there have been six property purchases.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

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

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 and will review the Council's preparations for the new accounting standards in further detail as part of our interim audit.

As part of our value for money work we will consider the Council's financial strategy, with particular focus on the management of savings and in-year financial management and monitoring of the financial position.

As part of our final accounts we will review the capital portfolio asset purchases in year, the valuation of these assets. We will consider and how the Council is measuring the return on these capital portfolio purchases.

3. Significant risks identified – Management override

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

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

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	<p>The Council revalues its land and buildings on a rolling five-yearly basis. The Council have updated its Accounting Policies to ensure that all assets in excess of £1m value will be revalued every year to reduce risk and the use of estimations. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£57.17m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, • evaluate the competence, capabilities and objectivity of the valuation expert, • write to the valuer to confirm the basis on which the valuation was carried out, • evaluate the basis on which the valuation was carried out, • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation, • test revaluations made during the year to see if they had been input correctly into the Authority's asset register, and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

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

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability</p>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£58 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

4. Other risks identified

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

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

5. Other matters

Other work

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

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

Other material balances and transactions

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

Going concern

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

6. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

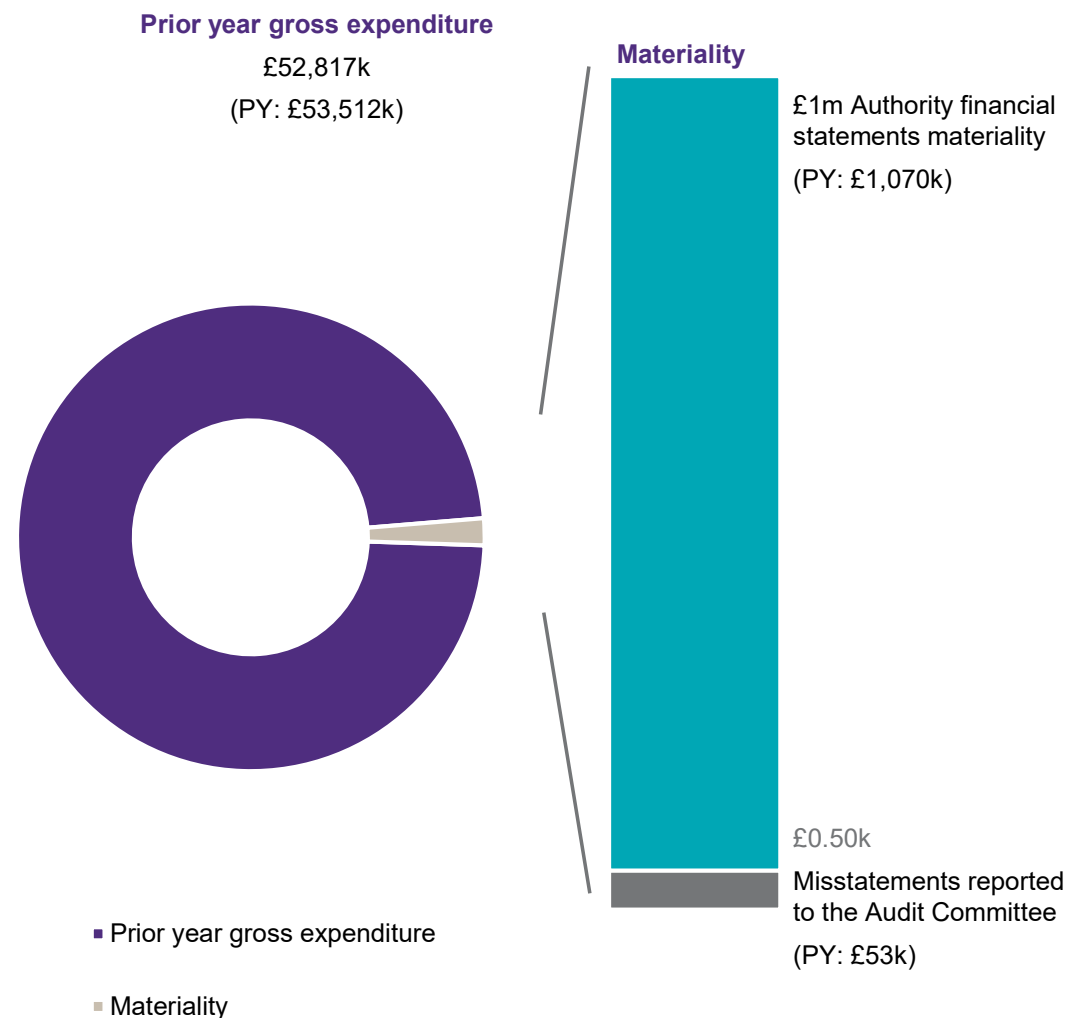
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.0m (PY £1,070k) for the Authority, which equates to 1.9% of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £8,730 (1.9% of senior officer note) for Senior officer remuneration as it is often viewed as a sensitive area for users of the accounts.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50,000 (PY £53,500).

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



7. Value for Money arrangements

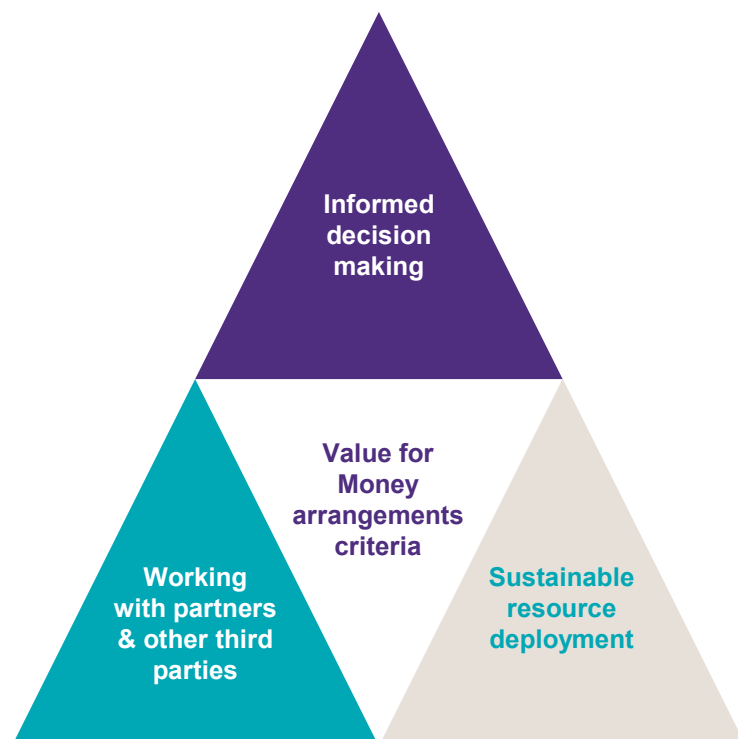
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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



Sustainable resource deployment

Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

The financial strategy is anticipating a funding gap of £1.74m by 2022/23. There is a continuing focus at the Council on identifying savings along with some use of reserves over the period of the medium term financial plan. The Council has historically underspent against its budget and in-year forecasting.

We will consider the Council's financial strategy, with particular focus on the management of savings, reserves management and in-year budget delivery.

8. Audit logistics & team



Peter Barber, Key Audit Partner

Peter is overall responsible for the quality and delivery of the audit in line with the firm's approach. He will liaise regularly with senior officers in the council. Pete will take responsibility for issuing the opinion on the accounts and the value for money conclusion



Zoe Thomas, Audit Manager

Zoe will take responsibility for managing the day to day delivery of the audit and dealing with any technical or other matters which arise in the course of our work. She will supervise and support Ellie in her role.



Ellie West, Audit Incharge

Ellie will be the key contact for the audit and will be on site during the interim and final accounts visits. Ellie will liaise with key finance officers to ensure that all are clear what information we require and agreeing a timetable. Ellie will undertake the key role and undertake much of the planning and final accounts work.

Client responsibilities

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

Our requirements

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

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

9. Audit fees

Planned audit fees 2019/20

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

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

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

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Total audit fees (excluding VAT)	£48,936	£42,181	£46,181

Assumptions:

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

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

Relevant professional standards:

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

Audit fee variations – Further analysis

Planned audit fees

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

Audit area	£	Rationale for fee variation
Scale fee	37,681	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	1,500	IFRS16 implementation and corresponding disclosure required in 19/20 under IAS8
Reduction in headline materiality	1,000	Reduction from 2% gross spend to 1.9%
Revised scale fee (to be approved by PSAA)	46,181	

10. Independence & non-audit services

Auditor independence

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

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

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

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified/ No other services were identified

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing subsidy grant	12,000* tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is estimated at approximately £12,000 for 2019/20 in comparison to the total fee for the audit of £46,181 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

* The estimated fee for our Housing Subsidy grant work is an increase on the £9,750 for 2018/19 and better reflects the level of audit work undertaken to certify this claim. We are discussing this potential increase with the Corporate Director: Resources.

The amounts detailed are in respect of audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

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

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

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

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

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

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

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

Other sector wide reviews

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

What are we doing to address FRC findings?

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

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

What will be different in this audit?

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

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

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



WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
25th MARCH 2020**Internal Audit - Annual Audit Plan 2020-2021**

OPEN	
CABINET MEMBER	Cllr G Ballinger, Strategy & Finance
RESPONSIBLE OFFICER	S151 Officer
CONTACT OFFICERS:	Tracey Southall Extension No 2100 tracey.southall@wyreforestdc.gov.uk Cheryl Ellerton Extension No. 2116 cheryl.ellerton@wyreforestdc.gov.uk
APPENDIX	Appendix 1 Internal Audit ~ Annual Audit Plan 2020~2021

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit – Annual Audit Plan 2020–2021. The Plan has been prepared in accordance with the UK Public Sector Internal Audit Standards 2013, updated 2016 amended 2017.

2. RECOMMENDATIONS

The Audit Committee is asked to:

- 2.1 Consider and approve the Internal Audit – Annual Audit Plan 2020~21, attached as Appendix 1.
- 2.2 Delegate any in-year amendments to the plan to the Section 151 Officer in consultation with the Audit Manager in light of developments arising during the year as described in paragraph 3.6 of this report.

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard and use public funds in an efficient and effective way and so providing value for money. An effective internal audit service is vital in helping management to meet these important duties. It is an independent appraisal function for the review of the Council's internal control system.
- 3.2 The Internal Audit section operates in accordance with recognised Internal Audit Standards¹ which aim to promote further improvement in professionalism, quality, consistency and effectiveness of Internal Audit across the Public Sector.

“**Internal Audit** is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach

¹ The UK Public Sector Internal Audit Standards (UKPSIAS) April 2013 {updated 2016}/{Amended 2017}.

to evaluate and improve the effectiveness of risk management, control and governance processes”

And adds:

“The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. **Internal Audit** plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation’s response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisation’s objectives”.

- 3.3 The role played by Internal Audit is key in **assessing the internal controls** in operation and **making recommendations** for improvement, working in partnership **with management**. Further, the role assists in working with managers aiming for continuous improvement and provides assurance that the Council maintains an effective internal control environment and ensures that effective and efficient operations are maintained, safeguards its resources and provides assurance that the Council has good governance arrangements in place.
- 3.4 The UK Public Sector Internal Audit Standards set out the mission, definitions and principles (the **standards**) which establish how a professional internal audit service should operate in the modern local government context.
- 3.5 The annual plan is viewed flexibly and treated as a working document subject to amendment as required to reflect changing corporate conditions or demands as well as issues that may arise during the currency of the plan, which divert Internal Audit away from planned work.
- 3.6 The plan is therefore seen as a **statement of intent** and provides the direction of travel and a framework for audit engagements in the forthcoming year that can be amended as necessary without having a damaging effect on the overall direction of the internal audit service. The audit plan has been prepared in accordance with the Internal Audit Charter.
- 3.7 Performance of the service is **monitored** against this plan during the year by way of a quarterly monitoring report to this committee, to the Corporate Leadership Team and to the external auditors, in accordance with the Internal Audit, Quality Assurance & Improvement Programme as approved by the Audit Committee at its November meeting, to ensure on-going monitoring of the performance of the internal audit activity.

4. **KEY ISSUES**

- 4.1 The **Internal Audit Charter** requires:
An audit plan be prepared based on risk to provide assurance on the council’s Services and activities in consultation with the S151 Officer and the Corporate Leadership Team.

The detailed operational plan will show how resources are to be allocated in the coming financial year in order to meet the requirements of the strategic plan.

- 4.2 As part of the preparations for this annual plan the Audit Manager has discussed with the Section 151 Officer and the Corporate Leadership Team their requirements for the forthcoming year for consideration for inclusion within the plan.
- 4.3 In order to ensure that the audit service cost is minimised to the authority the internal audit section work with external audit to ensure full liaison of planned internal audit work.
- 4.4 The Internal Audit – Annual Audit Plan 2020~2021 has been prepared in accordance with recognised Internal Audit standards and considers many factors to provide assurance to the Council in terms of the adequacy and effectiveness of financial and management controls in the areas under review.
- 4.5 The Annual Audit Plan should focus on areas where it can add most value and provide assurance that the Council’s risks are being properly managed. In doing so, Internal Audit has a role in ensuring the Council achieves its strategic aims. In addition to this, the audit plan should be realistic and achievable.
- 4.6 The core structure of the Internal Audit Team changed during 2019~2020 following the resignation of the Trainee Internal Auditor from December 2018 and the Senior Auditor/Corporate Fraud Officer in March 2019. The opportunity arose to revisit the structure of the Internal Audit Team. The revised structure in place from 1st April 2019 provided for a full time Auditor to support the Senior Auditor and Audit Manager. It is intended that the core structure of the Internal Audit Team for 2020~2021 remains unchanged ensuring that it meets the staff resources required to audit the risks of the Council and provide management with an opinion on the control environment.
- 4.7 The areas in the audit plan have been identified by an objective risk assessment. This has produced an overall needs assessment for the internal audit service of 394 days.
- 4.8 In accordance with the Internal Audit Public Sector Standards, the Internal Audit Section must be appropriately staffed and qualified and undertake Continuing Professional Development to fulfil its role. The flexibility demonstrated by the Internal Audit Team since 2014 will continue, and allow the in-house team to satisfactorily meet any exceptional service needs as they arise, or to meet the need for an intensive investigation.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no direct financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit Regulations 2015 regulation 5(1) require that:
“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

7. RISK MANAGEMENT

- 7.1 The Internal Audit - Annual Audit Plan 2020~2021 has been prepared in accordance with the recognised Internal Audit Standards. This requires the plan to be informed by the Council's risk management, performance management and other assurance processes. Where the risk management process is not fully developed or reliable an independent risk assessment is undertaken by the Audit Manager in consultation with the Section 151 Officer.
- 7.2 The restructure of the Internal Audit Team from April 2019 has been managed carefully in full liaison with CLT against the service need to ensure sufficient Internal Audit resource is retained. The reduced Internal Audit Team continues to work with the S151 Officer on a flexible basis and work additional hours if required to cover specific projects.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the nine protected characteristics.

9. CONCLUSION

- 9.1 The Annual Audit Plan 2020~2021 summarises the work to be undertaken by the Internal Audit section and provides its overall direction. It is presented to members in accordance with the Internal Audit Charter.

10. CONSULTEES

- 10.1 Corporate Leadership Team
Cabinet Member for Resources

11. Background Papers

Accounts & Audit Regulations 2015 (SI 314)
UK Public Sector Internal Audit Standards ~ April 2017
Internal Audit Charter {Updated} ~ Audit Committee ~ July 2018
Quality Assurance & Improvement Programme ~ November 2018



INTERNAL AUDIT

“Enabling Others To Do What They Need To Do”


INTERNAL AUDIT ANNUAL PLAN

2020 ~ 2021

Wyre Forest District Council affects the whole community and therefore aims to deliver public services to meet the needs of the Community and provide value for money. This includes identifying smarter ways of working to ensure delivery of services the community want as underpinned by the principles of systems thinking, ensuring the Council can meet its outcome priorities and purposes as identified in the Corporate Plan 2019~2023.

Wyre Forest District Council

Corporate Plan 2019-2023

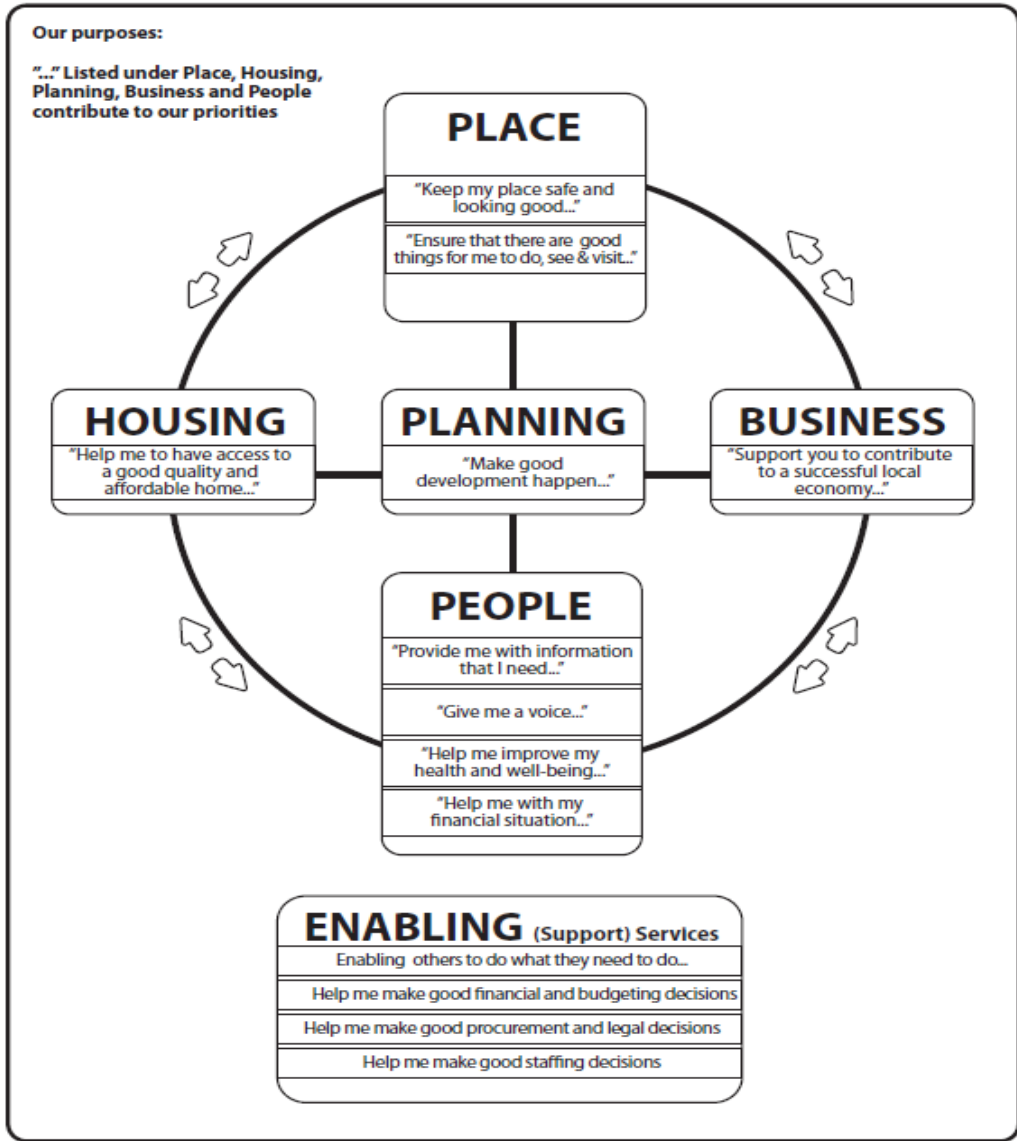
 **Our vision:** Wyre Forest is a network of thriving and confident communities, which minimise their impact on the environment, where people have a decent and affordable home, feel safe and enjoy a good quality of life.

 **Our priorities:**

A safe,
clean and
green living
environment

Supporting
a successful
local
economy

Good
quality and
affordable
homes
for all



**WYRE FOREST DISTRICT COUNCIL
INTERNAL AUDIT ANNUAL PLAN 2020 ~ 2021**

		2020/2021 Days
Systems and Probity Risk Reviews	NOTE 1	249
Computer Audit {ICT Governance & Advice}	NOTE 2	30
Contract Audit {Procurement}	NOTE 3	25
Sub-total Planned Work		304
Specific Service Duties	NOTE 4	25
Consultancy and Advice {Audit Resource Set Aside}		
→Provide professional advice on emerging risks and issues		25
→Management Requests for ad-hoc commissioned work		20
Irregularity Contingency {Audit Resource Set Aside}		
→Provide advice and assistance on required investigations		20
WORKLOAD/AVAILABLE DAYS		394

NOTES

- 1 The days per service area are shown on Pages 70-74
- 2 An analysis of the areas covered is shown on Page 75-76
- 3 An analysis of the areas covered is shown on Page 77
- 4 A breakdown of the specific service duties follows on Page 78
- 5 An analysis of the available days is shown on Page 79

OVERALL COMMENTS

The areas in this plan have been identified by an objective risk assessment as denoted by “**RA**” in the attached pages.

The Audit Risk Assessment uses a number of factors to calculate a risk score and to provide a weighted assessment.. The resulting scores are branded into three risk categories and ranked to identify determine the audit universe for Wyre Forest District Council.

- **High (Scores 61-100+)**
- **Medium (Scores 26-60)**
- **Low (Scores up to 25)**

AUDIT COVERAGE	RA	2020/21 Days	AUDIT SCOPE
Annual Assurance Reviews			
CORPRISK04~FAILURE OF THE INTERNAL CONTROL ENVIRONMENT/UNABLE TO DELIVER A SUSTAINABLE BUDGET			
<p>Treasury Management {Strategy; Reporting & Reconciliations (Risk: Failure to Maintain adequate controls over Key Financial Systems) The daily process is well managed, the audit review considers a more strategic approach. NB: The Treasury Management Advisor Contract Currently out to tender. Current Contract ends September 2020. If provider changes, the transition represents a risk.</p>	32	8	<p>Assurance Historically, good governance. Reviewed as impact of failure is significant. Scope will capture changes to the systems and procedures in place to manage the Council's Cash Flow and investments to maximise interest earned within the approved Treasury Management Strategy and consequent risk appetite. To review and ensure borrowing is managed in accordance with the Capital Strategy/ Medium Term Financial Strategy. Incorporating the Council Policies on Development Loans Fund to help delivery of regeneration and economic development, and the Capital Portfolio Fund, with Cabinet decisions of June & September 2017. Have regard to the MHCLG Guidance on Local Government Investments, the statutory guidance on the minimum revenue provision, code of practice on Treasury Management and the Prudential Code and November 2019 Guidance on Prudential Property Investments.</p>
<p>Budgetary Setting, Control & Monitoring (Risk: Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) Budgets are approved by Council in February, review will be considered budget monitoring by Service Managers in light of the Council's financial position.</p>	33	10	<p>Assurance Historically, good governance. Reviewed as impact of an unsustainable budget will result in failure to meet the Corporate Priorities. Scope will capture changes to the systems and procedures around the Council's Budget Cycle; review the setting of financial goals, forecasting future financial resources to include the monitoring of budgets to feed into the Councils Medium Term Financial Strategy. financial records and the final accounts.</p>
<p>Accounts Receivable: Corporate Debtors {Compliance & Reconciliations} (Risk: Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) To include Property Debtors. With a more commercial approach the audit review will consider income generation, costing of work to ensure income streams are meeting their targets; pre-payment for services.</p>	51	10	<p>Assurance Historically, good governance. Reviewed as an element of the general ledger that supports the annual statement of accounts; to provide a sound control environment processes must operate effectively. Scope will capture changes to the systems and procedures in place for the raising of accounts for services provided by the Council in respect of Miscellaneous Debts to include the monthly reconciliations and aged debt reports. Including follow up on change processes as part of the transformation programme. Including work in relation to the ICON cash receipting system and channel shift/digitalisation to generate increased external income. Income generation linked to the commercialisation agenda.</p>
<p>Benefits {Compliance & Reconciliation} (Risk: Failure to Maintain adequate controls over Key Financial Systems; to support an effective internal control environment) This Service continues to be subject to significant change imposed by DWP and is under continuous review to align processes/systems. Team changes/ staffing restructures continue to meet the changing business need.) This is a critical system and on the whole well managed. Local Council Tax Reduction Scheme as amended in 2019~20 remains unchanged.</p>	57	25	<p>Assurance Historically, good governance. Reviewed with regard to the rules covering entitlement to Housing Benefit and Council Tax Support being complex and administrative errors have the potential to lead to under/overpayments. Scope will capture changes to the systems and procedures to ensure entitlement to and payments in relation to Housing Benefit. To include Payments, Overpayments, Rent Referrals, Statistical and Subsidy Returns. Review changes to the Benefits System under the Welfare Reform Act, Universal Credit, Single Fraud Investigation Service and the WFDC Local Council Tax Reduction Scheme as amended. NB: Universal Credit went live in November 2018.</p>

<p>Payroll (Including Mileage & Subsistence claims) (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment; Significant proportion of expenditure, provided as part of a Shared Service with Redditch BC. HMRC IR35 changes from April 2017 in the public sector) 2020~21 review will continue to provide resources for validation of payments with some compliance testing and review of reconciliations. NB: Redditch BC moving from current Frontier system, WFDC currently exploring system and shared services alternatives.</p>	51	20	<p>Assurance Historically, good governance. Reviewed as a service delivered via a service level agreement. Scope to capture changes to the systems and procedures in place at Wyre Forest District Council and Redditch BC to ensure accurate payments to bonafide employees. Validation of all payments, to include those to HMRC including the changes in respect of IR35, Pensions and other deductions and allowances are correct and authorised and that all payroll transactions are accurately recorded in the financial accounts, to incorporate detailed testing of both staff and member mileage & subsistence claims. 2018~Act as a critical friend on the review of the payroll arrangements and the service level agreement. NB: Mandatory use of HR21 by Members in place from 2018</p>
<p>NNDR {Business Rates} {Parameters/Compliance & Reconciliations} (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) Business Rate reform continues with the retention rate increased in 2019~20 as a consequence of 1 year Pan Worcestershire 75% Business Rate Pilot. Reversion to 50% Worcestershire Business Rates Pool for 2020~2021. Delay for funding reform until 2021~2022. NB: BID, bills issued for 2020~2021 for Kidderminster Town Centre.</p>	21	10	<p>Assurance Historically, good governance. Reviewed as a key financial process with an annual rateable value in excess of £74m. Scope will capture changes to the systems and procedures in place to calculate liability, raise bills, collect income and monitor arrears; review process for the Business Rate retention including contributions to/from the Worcestershire pool. NNDR 3 return. Have regard to the 2017 revaluation by the Valuation Office from April 2017, any changes to reliefs and Check Challenge Appeal process for appeals. Provide assurance that appropriate notifications have been received advising of the NNDR multipliers and transitional relief rates for the current financial year, and that these have been accurately transferred to the Civica system for the billing process.</p>
<p>Council Tax {Parameters/Compliance & Reconciliations} (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment)</p>	16	10	<p>Assurance Historically, good governance. Reviewed as a key financial process, with an annual property charge in excess of £68m. Scope will capture changes to the systems and procedures in place to calculate liability, raise bills, collect payment and monitor arrears. To provide assurance that Council Tax charges have been correctly calculated, and parameters validated for an accurate billing process. To review the local Council Tax Reduction scheme. Review changes to the system for the detection/prevention of fraud on Single Person Discounts.</p>
<p>Accounts Payable: Corporate Creditors {Compliance & Reconciliations} (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) Accounts Payable is a stable system, and audit reviews will consider those applications that interface with Agresso, the Financial Management System e.g. Garage Hive. With regard to recent statutory changes}.</p>	44	10	<p>Assurance Historically, good governance. Reviewed as an element of the general ledger that supports the annual statement of accounts; to provide a sound control environment processes must operate effectively. Scope will capture changes to the system and procedures in place for the payment of invoices for services and supplies across the Council to cover all aspects including the weekly reconciliations of BACS; Purchase Order Processing (requisition to invoice payment); journal transactions Including follow up on change processes as part of the on-going transformation programme including channel shift and digitalisation.</p>

<p>Procurement Cards {Risk: Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment}{Failure to comply with the Local Government Transparency Code\monitoring of Contactless Functionality}</p>	44	10	<p>Assurance Historically, good governance. Reviewed as part the transparency process for procurement, Scope will review a sample of procurement activities across all service teams to evaluate the level of compliance with legal, transparency and constitution requirements. Including reviewing the controls in place for the use of the Council's purchasing cards and the recording and verification of purchases via this method.</p>
<p>Debt Recovery Procedures (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) To include Corporate & Property Debtors; Property Debts to include new Property Acquisitions and noting the role of BNP Paribas Estate Advisory & Property Management UK Ltd.</p>	67	8	<p>Assurance Historically, good governance. Reviewed as a key system across all directorates. Well managed as evidenced from the work of the Corporate Debt Recovery. Scope will capture changes to the systems and procedures for the recovery of outstanding debts having regard to the Legal requirements for Court Action(exc. Council Tax and NNDR). Have regard for the staff changes and realignment of the process for managing debt recovery within the Finance and Property Management Teams and the BNP Contract for managing the Capital Portfolio properties.</p>
<p>Accounting (Income& Bank) (Risk:Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) Stable processes in place with no issues identified. As systems continue to become more digital, future audit reviews will ensure WFDC procedures remain fit for purpose.</p>	40	10	<p>Assurance Historically, good governance. Reviewed as a key financial process, underpinning internal and external reporting by reconciliations to the General Ledger. Scope will capture changes to the systems and procedures around the Council's General Ledger to record financial transactions and produce the final accounts. To include Bank Reconciliations, collection of income via all mediums cross-cutting across all Directorates. Including follow up on change processes as part of the on-going transformation programme and having regard to the digital first agenda, including wider implementation of "Just Park" car park single ticket system.</p>
<p>Employee Establishment (Risk: Failure to Maintain adequate controls over Key Financial Systems to support an effective internal control environment) Remains an area of concern as the process is captured across Directorates.</p>	82	10	<p>Assurance Scope will continue to work with the HR Team to formalise systems and procedures for the maintenance of the WFDC Establishment database; and the process for updating staff details. Without an establishment, ghost employees cannot be identified or salary budgets managed.</p>
Cross Cutting Continuous Reviews			
<p>Information Governance CORPRISK05 Council misses important issues and/or is in breach of a requirement. {Risk: Breach of the Data Protection Act leading to penalties up to £500k – Note report commissioned as part of long term agreement from our insurers Zurich Municipal on Information governance risk} Review will be broken into different elements and reviewed on a rolling basis year on year, reviews will examine the manner in which information is received, managed and stored.</p>	~	10	<p>Continuous review to support the work of the Information Governance Group following the Zurich Municipal Review; work with the Data and Project Management Officer in reviewing procedures, processes including the training and awareness of relevant policies and guidelines. To provide assurance on controls implemented to manage information {including disposal} within the Council; to include not just ICT but manual records and information. Confirm compliance with data protection legislation with regard to the General Data Protection Regulation {GDPR} May 2018 to include mapping data protection processes and working with the Digital First Board to ensure that the personal information collected as part of the Digital Agenda is collected and collated as appropriate.</p>
<p>Ethics and Governance CORPRISK12 Effective/strategically focussed political leadership to cope with continuing significant challenges of reduced funding and changing legislative framework. (Risk: Reputational Damage; Failure to meet Statutory Requirements; Ineffective governance; unsatisfactory audit opinion)</p>	44	15	<p>Continuous review to determine whether the Council's has effective governance arrangements and ethical framework in place. to include Anti Fraud & Corruption Strategies; Data Protection; Freedom of Information; Contract Procedure Rules; Financial Regulations; Constitution; Code of Conduct; Gifts & Hospitality; Members Allowances; Data Quality/Performance Management. Arrangements with third party sections, partnerships and localism arrangements. Standards Management: Definition: An expectation that members and staff will operate to the highest standards of conduct, encouragement to do so, acknowledgement that, on occasions, some may fail to do so and a willingness to address this.</p>

Risk Management CORPRISK05 Council misses important issues and/or is in breach of a requirement. {Risk Reputational Damage; Ineffective risk management; unsatisfactory audit opinion Review will be broken into different elements and reviewed on a rolling basis year on year,	~	10	Continuous review of the Council's Risk Management arrangements to support the annual audit opinion, noting the new aspects of the S151 Strategic Panel Review Report {Appendix 4 of MTFS} including Cipfa's Financial Resilience Index. Select Key Risks from the Corporate Risk Register and review mitigating actions to support the annual audit opinion.
Fees & Charges (CORPRISK04-Unable to deliver a sustainable budget for the long term) (Risk: Reputational Damage; Failure to maintain a balanced budget) (without accurate financial information customers may be incorrectly charged, income could be lost causing under achievement of budgets and reputational damage)	~	6	Continuous reviews of Fees & Charges not covered elsewhere within the Plan on a rolling basis. Includes setting the charges, assurance that sections are complying with approved charges. This will be a parameter review and form part of the basis for the Accounts Receivable service reviews to ensure fees and charges are correct in Agresso, the Financial Management System and have been increased as per the approved Strategy, noting the work of and delegations to the Commercial Activity Programme Board.
TOTAL DAYS		182	

Cyclical Reviews

AUDIT COVERAGE	RA	2020/21 Days	AUDIT SCOPE
Housing Grants including Disabled Facilities Grants (Risk: Fraudulent claims; insufficient fund; misappropriation of funds) 2018-19 Mapped processes and reviewed procedures in place. 2019-20 Validation on Better Homes Government Funding	~	10	Reviewed as part of Strategic Housing the system changes to the process of awarding Disabled Facilities Grant arising from the Housing Needs Intervention as part of the Wyre Forest Forward Programme
Asset Management/Fixed Asset Valuations (Risk: Failure to Maintain adequate controls over Key Financial Systems) Property Acquisitions & Transfer of Kidderminster Town Hall 2020-21 Audit Reviews will have consideration for the Localism Agenda.	~	10	Continuous review of the system and arrangements in place to record, manage and maintain the Council's physical assets and property portfolio. Review of the systems and procedures in place in respect of the arrangement for leases, licenses and rental agreements; calculation of income due, collection and banking of income and the monitoring and recovery of arrears. Have regard for the Cabinet approval of £26.5m capital funding to grow the Council's portfolio of capital assets to support economic, regeneration and/or housing priorities.
TOTAL DAYS		20	

Corporate Plan Priorities {Allocations}

AUDIT COVERAGE	RA	2020/21 Days	AUDIT SCOPE
North Worcestershire Economic Development & Regeneration Economic Growth: {CORPRISK02: Unable to improve the economic prosperity of the district}	~	12	Corporate Plan Priority Banner: Supporting a Successful Local Economy → A shared service between Wyre Forest District Council/Redditch Borough Council/Bromsgrove District Council.
Strategic Housing: Homelessness: {Homeless Reduction Act ~ changes from April 2018} {CORP RISK 03: Unable to deliver good quality, affordable home} Having regard for employees TUPE'd across to Wyre Forest District Council	~	12	Corporate Plan Priority Banner: Good Quality and Affordable Homes For All → Preventing and reducing homelessness 2018-19 initial review of procedures for front line service at the HUB. Continued review of credit card spend, processes and procedures Increased Risk re In-house provision of homelessness accommodation in New St and Raven St, Stourport on Severn
TOTAL DAYS		24	

**Wyre Forest Forward Programme {On ~ Going Corporate Interventions}:
Internal Audit to support the Council with Interventions/Continuous Improvement Work**

AUDIT COVERAGE	RA	2020/21 Days	AUDIT SCOPE
Garage ~ Vehicle Maintenance/Stores & Stock Control to include PPE & Garage Hive (Risk:Failure to Maintain adequate controls over Key Financial Systems)	54	8	Continued support to the Depot as part of the Interventions to include ongoing review of the arrangements in place for the maintaining and servicing of Council Vehicles, to cover Driver responsibilities, stock control and issue of fuel with the implementation of the Garage Hive software application.
Income Generation {Commercial Work} to include →Grounds Maintenance/Tree Works (Risk~Reputational Damage; Customer xpectations; Failure to Generate External Income) →Driver Training (Risk~Reputational Damage, Customer expectations; Failure to Generate External Income) →Business Support Team (Risk: Reputational Damage; Failure to meet Statutory Requirements; Ineffective governance and Financial Management) →New Council Services/Income Streams {Risk~Reputational Damage, Customer expectations; Failure to Generate External Income)		15	Review of the systems and procedures in place for the provision of a commercial grounds maintenance service. Review of the systems and procedures in place for the provision of professional driver training . Continue to review, develop and refine systems to support the commercialisation of services being delivered by the Depot. Review of the work of the Commercial Activity Programme Board {formerly Income Generation Group} approved as part of the MTFS 2017~21 with wider Officer delegations. NB: Have regard for the work of the Commercial Activity Programme Board to include spot checks on business cases for new/increased commercial work. Acknowledge the introduction of a Wyre Forest Lottery.
TOTAL DAYS		23	
TOTAL AVAILABLE AUDIT DAYS		249	

WYRE FOREST DISTRICT COUNCIL**INTERNAL AUDIT ANNUAL PLAN 2020~2021****ICT Audits and Assistance (20 Days Per Annum)~ Continuous Programme of Review****CORPRISK06~Implementation of ICT Strategy****CORPRISK10~Unable to ensure a secure network**

Areas	Reason
IT Governance~ Physical Security	To ensure that physical security is in place and that protocols are adhered to. Ensure that there is effective management of assets throughout to manage changes and restructuring.
IT Governance ~ Public Services Network	To ensure actions from penetration testing are implemented to allow for continued connectivity to government systems.
IT Governance ~ Access Control Applications as detailed in the WFDC ICT User Security Policy ~ January 2019	To ensure that system access is recorded and appropriately granted. To ensure that System administrators are appropriately trained. To ensure Roles and Permissions are monitored To ensure employee starter, leaver and transfers access right set up and amendments are controlled and recorded.
IT Governance ~ Upgrade/Patch Management	To ensure there is a system in place for upgrading software and applying security and other supplier patches.
IT Governance ~ Back up	To ensure system back ups are controlled and secure. To ensure back ups are tested and the tests are recorded. To ensure back up equipment is working appropriately.
IT Governance ~ Audit Trails	To ensure Audit trails are switched on, show an accountable trail, are retained for an appropriate length of time and the time stamps are accurate. To ensure significant events have been recorded.
IT Governance ~ Contingency Plans (Monitoring of Cyber Risks)	To ensure contingency plans are in place and include security arrangements (including physical). To ensure off site arrangements have been tested. To ensure that the cyber environment is reviewed to maintain pace with current threats; addressing the risk of financial loss, disruption or damage to the reputation of the Council.

WYRE FOREST DISTRICT COUNCIL**INTERNAL AUDIT ANNUAL PLAN 2020~2021****Assistance & Advice (10 Days Per Annum) ~ Continuous Programme of Review****CORPRISK06~Implementation of ICT Strategy****CORPRISK10~Unable to ensure a secure network**

Areas	Reason
Social Media to include: {Risk: Reputational Damage; information not managed; feed back not monitored} Facebook Twitter Press Releases	The Council regularly updates the pages to ensure the Content is current and accurate. The sites are monitored with regard to mitigating risks in respect of branding and/or reputational damage The sites are accessible to all. Compliance with Data Security under:- ~a privacy policy, ~social media policy, ~ risk policy ~Freedom of Information and Data Protection policies. Ensure an internal policy include the employees use of social media.
IT Governance ~ Inventories {Risk: Misappropriation/misuse of Assets; Reputational damage should data on council assets be lost/misused; financial penalties for loss/misuse of data if hardware not manage}	To ensure inventories are in place for both computer software and hardware. To ensure inventories are regularly reviewed and updated.
Payments on Line ~ Procurement/Paypal (Risk: The continuing use of procurement cards a change in process from 2015 and introduction of contactless functionality from 2019)	To ensure that the Council procurement cards are secure and appropriately used. To ensure that the procurement cards are being used inline with Council policies when used on line. To ensure that purchases and payments are appropriately controlled.
Payment Card Industry Data Security (Risk:Financial Penalties or withdrawal of payment facilities)	To ensure that appropriate processes are in place for adherence to industry standards in relation to the use of payment card technology. Particularly for increased payment processes to support external income generation.
BACS {Banks Automated Clearing System {Risk: Reputational Damage should payments/income collection not be actioned promptly, failure to deliver services}	To work with the ICT Manager and Finance Team on the implementation of any industry changes to the BACS software to ensure effective arrangements in place for processing BACS bank to bank transactions.
ICT Strategy Board/ICT Security {Cyber} Group	To attend and provide consultative advise and support on information governance and appropriate internal controls.

WYRE FOREST DISTRICT COUNCIL

INTERNAL AUDIT ANNUAL PLAN 2020~2021

The Council undertakes a variety of procurement activities to help deliver services and meet its Corporate Plan Priorities. There are a number of key contracts and in order to mitigate the Council's exposure to commercial, contractual and reputation risk these should be effectively managed.

Contract Audit to include Procurement(25 Days Per Annum)

CORPRISK09~Unable to effectively improve the Council's Reputation

Contract/Procurement Audit includes:

- Contract Specifications
- Tendering Process including opening & recording
- Award of Contract
- Contract Monitoring
- Contract payments
- Contract register
- Final accounts as appropriate
- Service Level Agreements
- Due regard to Home Office Guidance on fraud and organised crime.

On contracts selected from the approved Revenue & Capital budgets.

Current Examples Include:-

- Disposal of Council Assets
- Depot 2020 Project
- Unity Park {Frenco Site} Project
- Capital Portfolio and Development Loans Fund Strategies progression
- Brinton Park Heritage Lottery Funding {if approved}

WYRE FOREST DISTRICT COUNCIL

INTERNAL AUDIT ANNUAL PLAN 2020~2021

Specific Service Duties – (25 Days Per Annum)

CONSTITUTION~GOVERNANCE

- Continuous review of Financial Regulations to ensure updated for the policies on Development Loan Fund and the Capital Portfolio fund//Contract Procedure Rules/Corporate Fraud Policies and others that may arise.

ARRANGMENTS FOR THE PREVENTION/DETECTION OF FRAUD

- To continue to coordinate the statutory requirement for the Cabinet Office National Fraud Initiative Data Matching Exercise
 - ➔ Participation by management and coordination in mandatory data matching exercise across public bodies to identify anomalies which may signify fraudulent transactions. Matches are investigated promptly and thoroughly.
- Counter Fraud Arrangements
- Participation in national surveys for Fraud to demonstrate actions in Protecting The Public Purse.

SPECIFIC ROLES

- Grant certifications where the contractual arrangement requires Internal Audit to confirm that expenditure is in line with grant terms and conditions.
- Recommendation Monitoring
 - ➔ To support the Audit Opinion
 - ➔ Allow for Internal Audit to monitor Managements progress with the implementation of recommendations.
- Internal Working Groups ~ Critical Friend Role
 - ➔ To provide for a representative on working groups to advise on risk and control.

WYRE FOREST DISTRICT COUNCILINTERNAL AUDIT ANNUAL PLAN 2020 ~ 2021

	TOTAL Per Annum
GROSS (FTE*)	640
<u>Less: Leave Allocations</u>	
Bank Holidays	24
Annual Leave	69
Sick/Special Leave	12
Training	31
Sub Total	504
<u>Less: Administration</u>	
Corporate Fraud	35
Kidderminster Town Council	25
Management Inc. Meetings (Internal)	18
Corporate Briefings	4
Audit Committee Attendance	6
Audit Plans/Monitoring Reports/Annual Report	8
General Duties	4
Risk Management {Critical Friend } S151 Support	10
Available audit days (FTE)	394

*FTE = Full Time Equivalent.

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
25th MARCH 2020**INTERNAL AUDIT MONITORING REPORT**
POSITION STATEMENT AS AT 29TH FEBRUARY 2020

OPEN	
CABINET MEMBER	Cllr G Ballinger: Strategy & Finance
RESPONSIBLE OFFICER	Tracey Southall, Extension 2100 tracey.southall@wyreforestdc.gov.uk
CONTACT OFFICER:	Cheryl Ellerton, Extension 2116 cheryl.ellerton@wyreforestdc.gov.uk

1. PURPOSE OF REPORT

- 1.1 To provide members with a position statement as at 29th February 2020 of the progress of the Internal Audit team against the 2019~20 Internal Audit Plan.

2. RECOMMENDATION

The Audit Committee is asked to CONSIDER:

- 2.1 **The position as at 29th February 2020 of progress by the Internal Audit Team against the approved 2019~20 Internal Audit Plan.**

3. BACKGROUND

- 3.1 The Audit Committee approved the operational Annual Audit plan 2019~20 in March 2019. In accordance with the Internal Audit Charter, actual performance of the Internal Audit service is monitored against the Audit Plan each quarter during the year.
- 3.2 The final quarter of the internal audit plan is still in progress. The Audit Committee received a formal report at its meeting of 22nd January 2020 on progress up to 31st December 2019 to include the third quarter of the 2019~20 Internal Audit Plan. It was therefore felt appropriate to bring the committee a position statement as at 29th February 2020.
- 3.3 The aim of the position statement is to capture and advise the Committee on work completed by the Internal Audit Team as at 29th February 2020 and outline the work in progress due for completion by the end of March 2020 in accordance with the formally approved Internal Audit plan.
- 3.4 The following position statement details those formal reports issued as part of the 2019~20 Internal Audit Plan which will be included in the Quarterly Monitoring Report for the quarter ended 31st March 2020 to be presented to the Audit Committee at its meeting in May.

FINAL AUDIT REPORTS ISSUED AS AT 29 TH FEBRUARY 2020	
	ASSURANCE
CORE FINANCIAL SYSTEM REVIEWS	
Key Systems (Annual Assurance Reviews)	
2019~20 Accounts Payable {Corporate Creditors} ~ Reconciliations	F
2019~20 Council Tax ~ Compliance {Change of Circumstances & Recovery}	F
2019~20 Housing Allowances & Local Council Tax Reduction Scheme ~ Reconciliation	F
2019~20 Income To Bank ~ Bank Reconciliation	F
2019~20 Local Council Tax Reduction Scheme ~ {Entitlement & Recovery}	F
2019~20 Payroll {WFDC} ~ Reconciliations	F

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance. A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.

A number of other reviews are currently in progress to cover the current on ~ going testing within the 2019~20 Annual Audit Plan for which formal reports will be presented to the Audit Committee in due course.

WORK IN PROGRES AS AT 29 th FEBRUARY 2020		Status	Action Plans/Progress Report			
RISK ASSESSMENT	AUDIT REVIEW	As At 29.02.20	DATE OF ISSUE Action Plan No 1	DATE OF ISSUE Action Plan No 2	DATE OF ISSUE Action Plan No 3	POSITION @ 29.02.20
	<u>Core Financial Systems (Annual Assurance Reviews)~</u>					
RA40	<u>Accounting Cash To Bank</u>					
	Bank Reconciliation	Stage 6	21.06.19	-	-	28.02.20 {FR}
	Income To Bank {TIC/Museum}	Stage 6	-	-	20.12.19 {FR}	-
	Income To Bank {Hub}	Stage 6	-	-	10.12.19 {FR}	-
	Income To Bank {Wyre Forest House}	Stage 6	-	-	17.12.19 {FR}	-
RA50	<u>Benefits {Inc Council Tax Discounts (Local Scheme)}</u>					
	Council Tax Reduction {Local Scheme} ~ Compliance	Stage 6	-	02.10.19	-	09.01.20 {FR}
	Housing Benefit {Allowances}	Stage 6	-	-	03.01.20 {FR}	-
	Housing Benefit ~ Overpayment Debtor Accounts ~ Reconciliations	Stage 6	-	-	-	06.01.20 {FR}
RA16	<u>Council Tax</u>					
	Ctax Reconciliations ~ {To include Gross Debit 2019/20}	Stage 6	18.06.19{FR}	-	-	-
	Ctax Reconciliations ~ {Valuation Office/Monthly Finance Control}	Stage 2	-	-	-	-
	Ctax Compliance/Recovery	Stage 6	18.06.19	27.09.19	-	12.02.20 {FR}
RA44	<u>Creditors (Accounts Payable)</u>					
	Creditors {Accounts Payable } ~ Compliance	Stage 3	-	18.08.19	-	-
	Creditors {Accounts Payable} ~ Reconciliation	Stage 6	-	-	-	15.01.20 {FR}
RA51	<u>Debtors (Accounts Receivable)</u>					
	Debtors {Accounts Receivable} ~ Compliance	Stage 3	-	03.09.19	23.12.19	-
	Debtors {Accounts Receivable} ~Reconciliations	Stage 6	-	-	05.12.19 {FR}	-
RA82	<u>Establishment</u>					
	Establishment Reconciliation	Stage 4	-	-	-	19.02.20
RA21	<u>National Non Domestic Rates</u>					
	NNDR ~ Reconciliations ~ {To include Gross Debit 2019/20}	Stage 6	12.06.19{FR}	-	-	-
	NNDR ~ Reconciliations ~ {Valuation Office/Monthly Finance Control}	Stage 4	-	-	-	28.02.20
	NNDR ~ Compliance	Stage 4	28.06.19	-	-	22.02.20
RA51	<u>Payroll (Including Mileage & Subsistence Claims</u>					
	Payroll ~ Compliance (WFDC Accountancy Team & RBC Payroll Team)^	Stage 3	-	10.07/ 29.07/ 03.09.19	-	-
	Payroll ~ Reconciliations {WFDC Accountancy Team}~Parameter	Stage 6	28.06.19{FR}	-	-	-
	Payroll ~ Reconciliations {WFDC Accountancy Team}	Stage 6	-	13.08.19	-	03.02.20 {FR}
KEY	Stage 1 ~ Field Work In Progress ~ {With Individual Auditor}					Stage 4 ~ Audit Complete ~ Under Review {Audit Manager}
	Stage 2 ~ Phases 1 & 2 & 3 Field Work Complete for Peer Review					Stage 5 ~ Draft Report Issued
	Stage 3 ~ Phases 1 & 2 & 3 Field work Complete with Action Plans/Progress Report to Service Manager					Stage 6 ~ Final Report Issued {FR}

4. CONCLUSION

- 4.1 This information is presented to members in accordance with the Internal Audit Charter for the Internal Audit Team and the Quality Assurance & Improvement Programme as requirements of the UK Public Sector Internal Audit Standards and details for completeness the work undertaken as at 29th February 2020 supported by the current work in progress for completion of the 2019~20 approved Internal Audit Plan.

5. CONSULTEES

- 5.1 Corporate Leadership Team

6. BACKGROUND PAPERS

- 6.1 22nd January 2020 ~ Audit Committee ~ Monitoring Report to 31st December 2019
25th March 2019 ~ Audit Committee ~ Internal Audit Annual Plan 2019~20
28th November 2018 ~ Audit Committee ~ Quality Assurance & Improvement Programme
30th July 2018 ~ Audit Committee ~ Internal Audit Charter {Updated}
Accounts and Audit Regulations 2015 {SI 234}

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE****25th MARCH 2020****Annual Governance Statement**

OPEN	
CABINET MEMBER:	Councillor G Ballinger, Strategy and Finance
RESPONSIBLE OFFICER:	Corporate Director: Resources
CONTACT OFFICERS:	Corporate Director: Resources Ext 2100 tracey.southall@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Annual Governance Statement Action Plan 2018/19

1 PURPOSE OF REPORT

- 1.1 This report is to present the current position in relation to the action plan which was developed to address the issues identified within 2018/19.

2 RECOMMENDATION

- 2.1 **The Audit Committee is asked to approve the progress against the Annual Governance Statement Action Plan 2018/19 which is attached at Appendix 1.**

3 BACKGROUND

- 3.1 The Accounts and Audit Regulations 2015, require the Council to conduct an annual review of the effectiveness of internal control and publish the findings alongside the authority's financial statements. The regulations require that a relevant committee considers the findings of the review.
- 3.2 The need to produce a Statement of Internal Control has been superseded by the requirement to produce an Annual Governance Statement (AGS) using the framework defined in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government: The Framework".
- 3.3 Full details on these requirements in relation to the Annual Governance Statement have been reported to the Audit Committee and are regularly refreshed as part of annual Member training. The Annual Governance Statement was presented and approved at the May 2019 meeting of the Audit Committee.
- 3.4 In determining the Annual Governance Statement the Council is required to take into account all relevant information including the following sources of evidence:

- Internal Audit reports;
- External Audit reports;
- Assurance Statements completed by senior staff;
- Corporate Risk Register;
- External Inspection findings including the Peer Review;
- Other relevant information.

3.5 Following consideration by the Corporate Leadership Team the Annual Governance Statement was approved by the Audit Committee at the meeting in May 2019.

4 KEY ISSUES

4.1 The Annual Governance Statement identified areas of Corporate Governance which needed to be addressed during 2019/20. An action plan has been developed and is attached at Appendix 1, which identifies these areas and the progress that has been made in addressing these points. This has been reviewed and agreed by the Corporate Leadership Team.

4.2 Members are requested to review and approve the action plan and to note the current progress in relation to the delivery of the necessary improvements.

5 FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising from this report.

6 LEGAL AND POLICY IMPLICATIONS

6.1 It is a requirement under the Accounts and Audit Regulations 2015 that the Council prepares an Annual Governance Statement and monitors actions arising from the content.

7 EQUALITY IMPACT NEEDS ASSESSMENT

7.1 There are no discernible equality and impact assessments relating to this report.

8 RISK MANAGEMENT

8.1 The Governance Framework pulls together all of the Council's information in relation to governance. In doing so the Council has regard for the Corporate Risk Register and approach to Risk Management. It is essential that the Council acts upon the significant governance issues that have been identified within the Annual Governance Statement.

9 CONCLUSION

9.1 The Council is required to complete an Annual Governance Statement which is required to:

- Consider the arrangements required for gathering assurances for the preparation of the annual governance statement;
- Consider the robustness of the Authority's governance arrangements;
- Monitor any actions arising from the review of arrangements.

9.2 This report identifies the progress that has been made to date in relation to the Annual Governance Statement approved on 29th May 2019 and re-certified on the 29th July 2019.

10 CONSULTEES

10.1 Corporate Leadership Team.

10.2 Cabinet Member for Strategy and Finance.

11 BACKGROUND PAPERS

11.1 29th May 2019 and 29th July 2019 – Annual Governance Statement 2018/19

11.2 Delivering Good Governance in Local Government CIPFA/SOLACE.

11.3 UK Public Sector Internal Audit Standards April 2016. {Refreshed 2017}

11.4 Audit Committee Reports 25th March 2019.

APPENDIX 1 - Significant Governance Issues for 2019-20

Wyre Forest District Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2018-19 Annual Governance Statement. The following significant governance issues have been identified and further actions have been put in place against each, in order to strengthen the Council's governance arrangements.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
1.	<p>General – Significant Financial Challenges</p> <p>-Continue to maintain financial resilience by securing approval of a Medium Term Financial Strategy with a fully balanced budget, taking into account the challenges of the proposed Funding Reform, noting the impact of the progression of “Brexit” and global economy volatility.</p> <p>-Potential shortfall on the delivery of savings to meet the circa £2m Funding Gap by 2021-22.</p> <p>-Managing emerging budget pressures</p>	AGS 2017-8 as highlighted by the Corporate Leadership Team and endorsed by the LGA Peer Review	<p>a) To continue to actively participate in and understand/model the impact of the fundamental Finance Reform, encompassing New Homes Bonus and Business Rate Review, phasing out of Revenue Support Grant, transfer of New Burdens, progression of Welfare Reform.</p> <p>b) Ongoing work around income generation, commercialisation and expenditure reductions. Further develop and evolve the Financial Strategy to include: -potential for large scale service redesign, alternative delivery and service providers, digitalisation and demand management.</p> <p>- a refresh of the Wyre Forest Forward Programme and robust monitoring with the opportunity to challenge as appropriate, against savings plans, to meet the increased targets from 2019-20.</p> <p><u>Progress</u></p> <p>MTFS for 2020-23 approved Council 26th February 2020. There continues to be active participation</p>	<p>a)/b) Balanced Medium Term Financial Strategy (MTFS) for 2020-23 with developed proposals for significant savings/cost reductions to close the increased funding gap from 2019-20.</p> <p>Achieved</p> <p>b) Early work to agree detail of WFF Programme to close the funding gap</p> <p>Achieved</p>	Corporate Director: Resources, Chief Executive and whole Corporate Leadership team	<p>April 2019 to February 2020, early work on specific plans to close Funding Gap after All-out elections in May 2019</p> <p>Achieved</p> <p>c) May 2019 Council for process final approval of refreshed Corporate Plan – September 2019</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			<p>in the Fair Funding Review with responses submitted for all consultations although the implementation date has been deferred until 2021-22. Localism has been progressed as one of the key strands of the plans to close the Funding Gap with active liaison with our Town and Parish Council partners. The pan-Worcestershire 75% Business Rates Pilot for 2019-20 is proving to be successful and will further inform the revised funding system. A management review within Community Well-being and Environment (CWBE) has contributed significantly to the Wyre Forest Forward savings targets with further service reviews planned with focus on delivery of core functions.</p> <p>c) Continue to develop thinking about the Council's future role and purpose post 2020. Detailed work to refresh the Corporate Plan to be undertaken during early part of 2019-20 with formal Council approval at September 2019 Council. This will ensure continued realignment to the Financial Strategy and future operating model so there is cohesive and compelling narrative about what the Council is striving to achieve and how it will deliver its priorities,</p>	<p>c) Corporate Plan post 2020. Achieved</p>		<p>Council Achieved</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			including the ways by which it will remain financially viable, and the further organisational transformation required. <u>Progress</u> The new Corporate Plan for 2019-23 was approved by September Council.			
2.	<p>Governance of Commercialism Issues</p> <p>The ongoing drive for a more commercial council brings new Governance challenges.</p> <p>Decisions taken using increased delegations need to be transparent following revised governance processes with the opportunity for regular review</p>	<p>AGS 2017-18. Highlighted by the Corporate Leadership Team and endorsed by the LGA Peer Review</p>	<p>a) To work in accordance with adopted Commercial Strategy for 2018-23 using the delegation afforded to the Commercial Activity Programme Board (CAPB) to consider business case proposals for new commercial activity and allocate resources from the generic Capital and Revenue funding pots</p> <p>b) Embed the focus on commercial activity into not only reports to the CAPB but also to formal Cabinet Budget Monitoring Reports.</p> <p><u>Progress</u> Commercial Strategy followed and working well via the officer Income Generation Groups and Commercial Activity Programme Board that includes key Cabinet Members. Review of resource for commercial activity undertaken as part of the CWBE management restructure and fixed term post of Commercial Business Manager was ended from December 2019. The CAPB continues to consider business cases</p>	<p>a)Increased Commercial Activity where appropriate and robust corporate value for money and due diligence procedures are satisfied Achieved</p> <p>b)Income targets included in MTFS are exceeded Achieved</p>	<p>a)Corporate Director of Community Well-Being and Environment supported by the Leadership team</p> <p>b)Corporate Director of Resources/ Financial Services Manager</p>	<p>a)Regular CAPB meetings Achieved</p> <p>b)Quarterly Progress check Achieved</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			<p>for expanding commercial activity. New products and services being tested and business cases developed. Commercial income growth reflected in MTFS, additional income targets for 2019-20 onwards aligned with business cases and experience of income achieved/scope for growth. Commercial Activity growth in the 2019-20 revised budget over last year's revised target was £704,830.</p> <p>Cross Council officer income generation group and also Digital First Group meet regularly</p> <p>Simplified Reporting of net income developed and also included in summary in Quarterly Cabinet Budget Monitoring Reports.</p> <p>Income achievement monitored in monthly budget reports for Cabinet/CLT as well as formal quarterly reports to Cabinet.</p> <p>Continue to attend West Midlands District Council Network Income Generation events and benchmark income generation activity against peers.</p>			
3.	<p>Governance of Property and Loan Portfolios</p> <p>To further progress the implementation of</p>	AGS 2017-18 MTFS 2019-22, endorsed by Peer Review	a) Continue to implement revised Capital Portfolio Fund Strategy as approved at February 2019 Council by making proposals for suitable investment opportunities and secure approval and	a) Implementation of approved proposals/acquisition of portfolio assets that secure net income streams as	CLT -Corporate Director of Economic Prosperity and Place, Corporate Director:	a) Further acquisitions secured by end March 2020 Achieved

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	<p>the policies for the Development Loans Fund of £10m and Capital Portfolio Fund of £25m. To clarify with the wider public that the intended impact of these £35million policies is to support the Financial Strategy and the Corporate Plan priority to deliver a successful local economy rather than commercial investment.</p>		<p>implementation/acquisitions.</p> <p><u>Progress</u> Two further purchases have been made within district so far in 2019-20. Council on the 26th February 2020 agreed a £1.5m top-up of the original £25m Capital Portfolio Fund to provide headroom for further purchases within district currently being considered.</p> <p>b) Now arrangements for external Fund Management of Development Loans Fund policy by Finance Birmingham are in place to progress this by sourcing suitable loan applicants and making loans.</p> <p><u>Progress</u> Limited interest so far in Loan offer; agreed with Finance Birmingham that they waive their fund management fee from December 2019 in view of this. First loan application proposal currently being progressed, it is hoped that others may follow.</p> <p>c) To work with the communications team to reinforce intended impact.</p> <p><u>Progress</u> Further purchases have been in area and attracted less negative comment</p>	<p>revised in approved budget</p> <p><u>Achieved</u></p> <p>b) Loans approved where appropriate and robust corporate value for money and due diligence procedures are satisfied</p> <p>First Loan proposal under consideration</p> <p>c) Less negative social media comment</p>	<p>Resources, Solicitor to the Council</p>	<p>b) By end 2020</p> <p>First Loan proposal under consideration</p> <p>c) By end of 2019-20 <u>Achieved so far</u></p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			on social media platforms so far.	Achieved so far		
4.	<p>Information governance issues and non-benefit fraud</p> <p>-utilising the Compliance Officer and Corporate Fraud Resource and separate Corporate Debt Recovery resources. Performance and impact of these resources to continue to be closely monitored and reported.</p>	Annual Governance Statement 2016-17 and MTFs 2017-20	<p>a) Information Governance Sub-Group (of the ICT Strategy Board) to continue to meet regularly to progress actions</p> <p><u>Progress</u> The Information Governance Group meets quarterly and is making good progress.</p> <p>b) Compliance Officers within the Revenues & Benefits Section in post since March 2015. They are responsible for protecting and increasing the tax base through regular monitoring and reviewing council tax discounts and exemptions to ensure they are legitimately claimed. To review the decision last year to invest in more staff for council tax and business rates recovery jointly funded by Worcestershire County Council to maximise Council Tax Income.</p> <p><u>Progress</u> Additional recovery work undertaken within Revenues and Benefits and is working well. Funding for extra resource of £20k from Worcestershire County Council secured for 2020-21.</p> <p>c) Review revised arrangements for delivery of Corporate Fraud /Corporate Debt Recovery</p> <p><u>Progress</u> Arrangements for delivery of</p>	<p>a) Implementation timetable achieved</p> <p>In Progress</p> <p>b) Income collected in terms of £s and % recovery rates</p> <p>Council Tax increase from 94.62% to 94.82% Jan 2019 to Jan 2020 this represents a 0.20% increase in % and £2,765,955 increase in sums collected (£55,106,184 to £57,872,138)</p> <p>Business Rates increase from 91.83% to 91.85% Jan 2019 to Jan 2020 this represents a 0.02% increase in % and decrease of £712,785 in sums collected (£27,193,246 to £26,480,461)</p>	<p>Chief Executive, Corporate Director: Resources Revenues, Benefits & Customer Services Manager</p> <p>c) Corporate Director: Resources/ Audit</p>	<p>a) Ongoing consideration via Information Governance Sub-Group</p> <p>Achieved</p> <p>b) Monthly reporting of collections rates/amounts and half-yearly review of impact of extra resource for collection</p> <p>Achieved</p> <p>c) July Audit Committee for Fraud Update</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			<p>Corporate Fraud reviewed and to remain as part of Internal Audit Team. Corporate debt recovery assigned to a member of the Finance team</p> <p>Report on Counter Fraud Arrangements 2019~20 to July 2019 Audit Committee</p>	<p>c) Reports to Audit Committee will assess success of Corporate Fraud service</p> <p>Achieved – Report to July 2019 Audit Committee</p>	Manager	<p>report</p> <p>Achieved</p>
5.	<p>Partnership and Engagement Governance issues</p> <p>Maintaining resilience in the governance process with particular regard to the increasingly complex array of partnership agreements and alternative funding solutions the Council may sign up to as part of its pursuit of innovative alternative service delivery solutions to unlock funding opportunities and generate revenue income streams. This includes Public Sector Partnership Wyre Forest LLP set up on the 22nd March 2017 and</p>	Annual Governance Statement 2017-18	<p>a) Ensure new partnering arrangements have robust governance arrangements including full regard to legal, financial and HR implications. Once governance arrangements are in place continue to review and ensure they remain robust</p> <p>b) Ensure arrangements for traded services and arms-length organisations are fit for purpose</p> <p>c) Progress work with PSP Wyre Forest LLP by allocating sites/projects within the district for this new partnership arrangement to explore</p> <p>d) Further investigation of various structures for different arrangements, including utilisation and or expansion of the Group Structure of the approved LATC</p>	<p>a)/b) Robust due diligence for all proposals presented in business cases to be considered by Overview and Scrutiny Committee and Cabinet</p> <p>c) That work with PSP Wyre Forest LLP commences and delivers some tangible outcomes</p> <p>d) Reports prepared for proposals for alternative service delivery models</p>	CLT – Corporate Director of Economic Prosperity and Place author of Property LATC report, designated officers for PSP	<p>a)/b) Ongoing due diligence work presented to Overview and Scrutiny/Cabinet throughout 2019-20</p> <p>Not relevant</p> <p>c) PSP utilised by end of 2019-20</p> <p>Achieved – conditional approval on a site</p> <p>d) LATC Group Structure utilised as appropriate</p> <p>Not appropriate to date</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	the approved Group structure for a Local Authority Trading Company (LATC), localism, joint operations and potentially devolution and combined authorities		<p><u>Progress</u> No new partnering arrangements have been put in place in 2019-20.</p> <p>Progressed work with PSP Wyre Forest LLP by approval of development site within the district for this new partnership arrangement to deliver. Regular meetings continue to be held to explore the potential to progress further development through the PSP Wyre Forest partnership.</p>			
6.	<p>ICT Resilience Governance Issues Maintaining ICT resilience to ensure a secure network, ensuring the ICT infrastructure is protected adequately from attacks and threats; Progression of ICT Strategy Capital Allocation of £1.757m; GDPR –compliance</p>	<p>Corporate Risk Register and ICT Strategy Board; ICT Security {Sub-Group}</p> <p>MTFS 2019-2022</p> <p>GDPR Legislation - effective date 25th May 2018</p>	<p>a) Quarterly review of network security and cyber resilience <u>Progress</u> Network security continues to be a priority with significant resource dedicated to it. PSN compliance has been maintained and the network security continues to be effective.</p> <p>b) ICT Strategy Board approvals <u>Progress</u> continues to be made with the roll-out of the ICT Strategy with significant work on the Server Area Network (SAN) achieved this year.</p> <p>c)Review of compliance by Information Governance Sub-Group (of the ICT Strategy Board) <u>Progress</u> The information Governance Group</p>	<p>a) PSN compliance, secure network; Achieved; continuous improvement work maintained</p> <p>b) Timetable proceeds to timetable Achieved</p> <p>c)Review evidenced compliance Achieved</p>	<p>ICT Manager/ Corporate Director: Resources</p> <p>Data Controller</p>	<p>Ongoing reports to ICT Strategy Board, Information Governance Sub-Group, Cabinet Members and Group Leaders</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			<p>meets quarterly to review and evidence compliance</p> <p>Cyber Security Group established to meet and support ICT Strategy Board; focus on cyber security business continuity plans and overall cyber security strategy.</p>			
7.	<p>Communication of Vision- Corporate Plan</p> <p>Wider communication of priorities and purposes and also further development of the approach to consultation, engagement and involvement of communities and stakeholders</p>	LGA Peer Review Annual Governance Statement 2017-18	<p>a) Results of Focus Groups to discuss Council and values, priorities and purposes to be discussed with CLT and incorporated in the new Corporate Plan.</p> <p>b) To trial the use of the new consultation template and prepare a marketing plan of actions. <u>Progress</u> A consultation template was introduced as an online form. This was presented to senior management. Regular reminders are also scheduled.</p> <p>c) Continue to keep staff aware of Wyre Forest Forward Programme including updated information on the intranet and Website <u>Progress</u> New corporate Plan 2019-23 was approved by September Council. The Consultation process for the Corporate Plan was overseen by the Cabinet Financial Strategy Advisory Panel and a record circa 1700 responses were received. The Focus</p>	<p>a) Survey results included in new Corporate Plan. <u>Achieved. The strategic priorities tie in with those top areas of concern raised in the survey.</u> b)Improved consultation responses <u>Achieved – increased communication capacity has enabled better marketing of consultations Eg previous satisfaction surveys returned circa. 400 responses while 2019 returned 1700 when produced and marketed inhouse. Since 2017 our response rate to our budget survey has more than tripled.</u> c)Increased levels of awareness and</p>	<p>Chief Executive/CLT Cultural Services Manager/Media Team to prepare proposals</p> <p>CLT Cultural Services Manager/Media Team</p>	<p>By February 2019</p> <p><u>Achieved</u></p> <p>Ongoing</p>

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
			<p>Groups were also held to timetable and fed into the Corporate Plan process.</p>	<p>engagement with workforce The introduction of a new email marketing system has enabled more targeted information to colleagues. This will be utilised further for promotion of our vision and corporate plan.</p>		

Consultation on scale of audit fees for 2020/21

Opted-in local government and police bodies

January 2020

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

From 2018/19 PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

Contents

Consultation on 2020/21 scale of fees	2
Introduction	2
Responding to this consultation	3
Proposed fee scale for 2020/21	4
Auditors' assessment of risk and complexity – key variables	5
Code of Audit Practice and supporting guidance notes	5
Financial reporting requirements	6
Professional standards applicable to auditors' work	6
Quality of financial statements and supporting working papers	7
The proposed fee scale for 2020/21	7
Fee consultation 2019/20	7
Fee variations process	8
Value added tax	8
Next steps	9

Consultation on 2020/21 scale of fees

Introduction

1. This consultation considers the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements for local bodies that have opted into Public Sector Audit Appointments' (PSAA) national auditor appointment scheme.
2. PSAA is specified by the Secretary of State for Housing, Communities and Local Government under the Local Audit and Accountability Act 2014 (the Act 2014) and the Local Audit (Appointing Person) Regulations 2015 (Regulations) as the appointing person for principal local government bodies in England, including local police and fire bodies. Under the Regulations we are responsible for consulting on and setting scales of fees for authorities that have opted into our auditor appointment scheme.
3. Scale fees are based on the expected audit work to be undertaken by appointed auditors under the requirements of the:
 - Code of Audit Practice (Code) and supporting Auditor Guidance Notes (AGNs) published by the National Audit Office (NAO);
 - financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC; and
 - professional standards applicable to auditors' work.
4. Other factors that may also need to be taken into consideration in setting the fee scale include changes in audit regulation and inflation. We also take account of the previous year's audits to identify and consider the ongoing implications of any relevant factors that may have emerged.
5. The Regulations require PSAA to set a fee scale before the beginning of the relevant financial year, and that this cannot be amended after the financial year has begun. However, the Regulations allow the audit fee for an individual body to be varied if substantially more or less audit work is required than envisaged by the scale of fees. In some cases this may result in a one-off fee variation affecting a single year, in others it may point to the need for a permanent adjustment to the scale fee for the body concerned.
6. The timing of this year's consultation is slightly later than usual. Under normal circumstances we would have consulted on our approach to the scale of fees for 2020/21 during October 2019 to December 2019. However, we wrote to all S151 officers explaining the need to delay the consultation pending finalisation of the new NAO Code of Audit Practice. The consultation on the Code has now been completed and the new Code was formally laid in Parliament on 22 January 2020. The AGNs that support the Code will provide more detail on the auditor's responsibilities, and we understand that the NAO intends to consult publicly in Summer/Autumn 2020 on them.
7. The background to the 2020/21 fee consultation is unusually turbulent and challenging. Following a number of significant corporate financial failures in the private sector, the Government has commissioned three important reviews. Sir John Kingman has reviewed

audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reported on the quality and effectiveness of audit. In addition to these reviews which focus primarily on private sector audit, Sir Tony Redmond is currently reviewing financial reporting and audit in local government and is expected to report later this year.

8. It is not yet clear what the long term implications of these reviews will be. However, the impact of early recommendations has been significant, heightening the pressure on auditors to meet regulatory requirements to deliver audits which reflect greater professional scepticism across all sectors, including local audit.
9. The outworking of these pressures has had a major impact on the conduct of local audits of 2018/19 financial statements, and has highlighted a number of significant underlying challenges for local auditors and/or audited bodies. These include the very tight timetables for preparation of accounts and delivery of audit opinions; recruitment and retention difficulties which are resulting in an increasing shortage of audit resources with suitable experience for local government work; auditor concerns about the quality of some bodies' pre-audit accounts and working papers; and challenges resolving technical issues within increasingly complex accounts. The end result has been a significant number of audit opinions being delayed beyond the 31 July target publication date set out in the Accounts and Audit Regulations.

Responding to this consultation

We welcome comments on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@psaa.co.uk

The consultation will close on **Friday 6 March 2020**.

Proposed fee scale for 2020/21

10. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:
 - issues which have given rise to additional audit work in relation to 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
 - new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews highlighted in para 7; and
 - the introduction of the new Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.
11. Paras 19 to 32 below provide further and more detailed information about some of the potential factors concerned. The list is illustrative rather than comprehensive.
12. The nature of many of the factors highlighted is that their impact is likely to vary from one audited body to another. Even within classes of similar bodies impacts may vary significantly depending upon local characteristics which have implications for audit risks. Importantly, although the new Code and the revised AGNs will clearly apply to all bodies, they may require different levels of audit work depending, for example, on the maturity of the body's value for money arrangements in respect of the specific themes/reporting criteria identified in relation to the new audit commentary, namely financial sustainability, governance and improving economy, efficiency and effectiveness.
13. In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.
14. Our expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits and with a specific aim also to look ahead to identify any implications for 2020/21. Where a factor is relevant to the specific body concerned the parties should consider whether any additional audit work is likely to be required and, if it is, whether it is likely to be a one-off response, i.e. in all probability affecting a single audit year, or an ongoing requirement. The former will potentially translate to a one-off fee variation; the latter will logically lead to an ongoing scale fee adjustment.
15. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process - a cause of understandable frustration when it arises.

16. PSAA will consider the reasonableness of any proposed one-off fee variations and/or ongoing adjustments to scale fees arising from these discussions. Ideally the majority of such conclusions will reflect an agreed position which is supported by both the audited body and the auditor. However, even where agreement has been reached, PSAA will review proposals and advise the relevant parties if we have any significant concerns. In the event that authorised representatives and auditors are unable to reach an agreed position, PSAA will arrange a discussion with the parties with a view to determining a fair outcome in relation to any one-off variations or ongoing scale fee adjustments arising.
17. We believe that local discussions of the type outlined will enable an important exchange of views and information between auditor and audited body. As well as addressing the factors listed in this consultation document, it will provide an opportunity for both parties to raise any other issues which they consider to be relevant to the efficient conduct of the 2020/21 audit. The outcomes of the discussion will inform planning and preparation for the audit, and should be reflected in the audit plan submitted to the body's audit committee or other responsible group, ensuring that those charged with governance are appropriately informed.
18. PSAA does not need to increase scale fees for any other pressures affecting the company's own costs including inflation. Accordingly, we propose that the base scale of fees for 2020/21 should remain unchanged from the scale agreed in respect of 2019/20 audits. However, as outlined above, we envisage that local discussions between audited bodies and auditors will lead in some cases to ongoing adjustments to individual scale fees as well as to one-off variations. For transparency, we will summarise the volume and extent of these adjustments and variations as part of our established quarterly audit contract monitoring reporting arrangements ([Quarterly Monitoring Report](#)).

Auditors' assessment of risk and complexity – key variables

19. The paragraphs below provide a summary of some of the variables which may have implications for audit risk and work and which may therefore need to be considered in local discussions between auditors and audited body representatives.

Code of Audit Practice and supporting guidance notes

20. Under the provisions of the 2014 Act, the NAO is responsible for publishing the statutory [Code of Audit Practice](#). It also publishes supporting AGNs for auditors. The 2014 Act requires the Code be reviewed and revisions considered by Parliament at least every five years. The current Code came into force on 1 April 2015, and the new Code will apply from 1 April 2020, i.e. from audits of 2020/21 accounts.
21. The current Code requires the auditor to give an opinion on the financial statements of a body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money (VFM). The new Code requires a sharper focus on VFM arrangements, with specific reporting criteria on: financial sustainability, governance, and improving economy, efficiency and effectiveness. The new Code also requires auditors to provide a commentary on their findings, rather than the current requirement to state a conclusion on whether the audited body did or did not have appropriate arrangements in place.
22. The proposed Code states that determining how much work to do on arrangements to secure VFM is a matter of auditor judgement, based on the requirements set out in the

Code and supporting guidance. Supporting AGNs will be published later in 2020 as referenced earlier in this paper.

23. The extent of any additional work to be required on VFM arrangements will depend on local circumstances and may vary from year to year and from authority to authority. Further, there may be a one-off effect as both authorities and auditors make the transition from old to new requirements and lay the foundations for appropriate audit coverage.
24. Early discussions about the new Code will be helpful. However, definite conclusions about implications for audit risk and workplans will need to await and have regard to relevant guidance (AGNs). PSAA will also be able to consider the impact of the new Code requirements in more depth once the AGNs are finalised. At that stage we may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Financial reporting requirements

25. The scale fees reflect the audit work needed at audited bodies based on current financial reporting requirements. Any changes to these requirements may have an implication for the extent of audit work required to deliver an appropriate level of assurance.
26. For example, from 2020/21 the Code of Practice on Local Authority Accounting issued by CIPFA/LASSAC requires the adoption of the requirements of an updated version of IFRS16 on the treatment of leases. The changes to the requirements may mean additional work is needed.
27. The impact of the standard will vary between authorities and accounting periods, based on factors such as the volume of leases and quality of documentation. There may be a greater impact in the first year of implementation of the new standard compared to subsequent years.
28. Auditors will need to have local discussions with individual opted-in bodies about IFRS16 as the bodies will need to disclose the estimated impact in their 2019/20 accounts. These discussions will inform the auditor's judgement about the amount of additional audit work that will be needed for both 2019/20 and 2020/21. Bodies may wish to discuss with auditors if there are any actions which they can take to reduce the extent of additional audit work needed.

Professional standards applicable to auditors' work

29. Auditors are under increasing pressure to demonstrate greater professional scepticism when carrying out their work, for example, by exercising greater challenge in areas where management makes judgements or relies on advisers/experts. The International Auditing and Assurance Standards Board (IAASB) has revised its standard on accounting estimates, 'ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures', to respond to the evolving business environment. The revision is intended to ensure that the standard continues to keep pace with the changing market and fosters a more independent and challenging/sceptical mind-set in auditors. Audit firms in turn have updated their work programmes and reinforced their internal processes to meet the new expectations.

30. ISA 540 (Revised) becomes effective for financial statement audits for periods beginning on or after 15 December 2019 and will therefore apply for 2020/21 audits. The current version of the standard has 23 required procedures for auditors to apply to test each significant estimate in the accounts; the revised standard has 39. These changes are likely to have a variable impact on 2020/21 audit plans depending on the type, number and significance of estimates included in an individual authority's financial statements.
31. More generally, regulatory standards are being raised and seem set to continue to do so in response to widely reported financial failures in the private sector and resulting reviews commissioned by Government. Current regulatory practice is to apply standards to all relevant audits, unless specifically dis-applied or adapted (for example by Practice Note 10).

Quality of financial statements and supporting working papers

32. Scale fees are based on the expectation that bodies will provide the auditor with complete and materially accurate financial statements with supporting working papers. Where this is not the case, the auditor may need to undertake further work. Local discussions provide a useful opportunity to anticipate and highlight any issues which may give rise to incomplete or inaccurate accounts and/or supporting papers.

The proposed fee scale for 2020/21

33. We propose a fee scale for 2020/21 which is unchanged from the fee scale for 2019/20. As outlined above, we have not attempted to make allowance for matters such as those set out in paragraphs 19-32, because their impact will vary from one body to another and therefore requires local discussions between auditors and individual bodies.
34. If an auditor wishes to put forward a proposed adjustment to the scale fee in response to any of the matters set out in paragraphs 19-32 above, or other matters, we will, if time permits, take that into account in finally setting the scale fee before 31 March 2020. Otherwise such proposals will be considered in the usual way as part of the fee variation process.

Fee consultation 2019/20

35. We invited responses to the consultation on the 2019/20 fee scale from over 480 opted-in bodies and other institutions and received a total of 30 responses. They were generally positive about the proposal not to change the level of scale fees.
36. However, audit providers raised some concerns about the:
 - difficulties created by some very low scale fees, particularly for pension fund audits. Irrespective of size and complexity there are core audit requirements that auditors have to meet to complete an audit which is compliant with the requirements of the Code and professional standards, including the same suite of auditor reports and attendance at similar numbers of meetings with those charged with governance;
 - low hourly rates for charging additional fees – the standard hourly rates provided by PSAA for charging for additional Code related work have been adjusted in line with fee reductions over the years. Several firms challenged the logic of reducing rates in this way, explaining that fee variations increasingly relate to new, higher risk areas

and require expertise from elsewhere in the firm, at rates which routinely exceed audit rates; and

- additional audit work required for a Public Interest Entity (PIE), as this status requires an enhanced audit report. Given its ongoing nature, auditors suggest that these additional requirements should be reflected in adjustments to relevant scale fees rather than via a succession of one-off variations.

37. We accepted that if an audited body becomes a PIE, there is ongoing additional work needed and that a new scale fee should therefore be established. We are also currently exploring a range of issues in relation to scale fees in more detail, and have established a project which will conclude in 2020. The PSAA Board will consider the outcome of this research to determine any improvements that should be made to the processes for setting and varying scale fees including the methodology for making adjustments to any relevant individual scale fees.

Fee variations process

38. Variation requests must be made to PSAA by the auditor using a standard process. The auditor cannot invoice an audited body until PSAA has approved the request.

39. Fees for considering objections will be charged from the point at which auditors accept an objection as valid. Similar arrangements will apply to any special investigations undertaken, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Value added tax

40. All the 2020/21 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Next steps

41. PSAA has a statutory duty to prescribe a scale of fees for the audit of accounts of bodies that have opted into its national auditor appointment arrangements. Before prescribing scale fees, we are required to consult opted-in authorities, representative associations of relevant authorities and bodies of accountants.
42. We welcome comments from audited bodies and stakeholders on the proposals outlined in this document. The consultation will close on **Friday 6 March**.

Please send comments or questions by email to:

workandfeesconsultation@psaa.co.uk

43. Following responses to this consultation, we will publish the final 2020/21 scale of fees for publication in March 2020.
44. If you have complaints about the way this consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.

**Consultation on scale of audit fees for 2020/21
Response from Wyre Forest District Council**

We welcome the opportunity to comment on these proposals.

We recognise that there are a number of factors affecting public sector audit at present, some of which are still uncertain such as the outcome of the various reviews mentioned in paragraph 7. However we do not support the proposal that the appropriate response is that “discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer”.

We accept that there may be exceptional factors that apply in a few councils. However in our view for most of the issues mentioned there is probably either a “swings and roundabouts” effect or that all district councils will, in broad terms, face a similar effect.

In other words, in our view, it will be inefficient and wasteful of time and resources to require 191 authority-level discussions about fee levels for 2020/21: for councils, for auditors and for Public Sector Audit Appointments itself. This would, we feel, be the case not only among district councils but also for other types of council. It could even be said to undermine the rationale for the existence of PSAA, which is meant to handle the procurement, appointment and fee-setting processes at national level. We do not recall a previous year in which the national arrangements were proposed to be replaced by across-the-board local discussions.

We believe that PSAA should – in consultation with the Society of District Council Treasurers and the appointed audit firms - identify those factors where the effect, in broad terms, is likely to be similar for all district councils. PSAA can then set fees for 2020/21 to cover those factors, leaving only a few exceptional cases where authority-level discussions would be necessary.

We feel that the position which has emerged suggests the need for a more robust procurement process in future that does not allow the appointed firms to shift away from their tendered prices, except for the few councils where there may be exceptional local factors in play. Councils welcomed the reduction in audit fees following the last procurement process but the resultant savings are now eroding significantly year on year.

Ian Miller

Chief Executive

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Fri 28/02/2020 11:45

PSAA - Public Sector Audit Appointments Limited
workandfeesconsultation@publicsectorauditappointments.gv-c.com

External Email : Update on audit matters

Dear S151 officer,

Given all 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. That is an incredibly unsatisfactory position, particularly for all 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 soon. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

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

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

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

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking

ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, the impact will vary dependent 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. Note 1 below 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.

Tony Crawley

Chief Executive

Public Sector Audit Appointments Limited

Note 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 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 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.



Future Procurement and Market Supply Options Review

Final Report

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

Date: 26 February 2020

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<u>CONTENTS</u>	<u>Page</u>
1. EXECUTIVE SUMMARY	4
2. PURPOSE AND SCOPE	6
2.1 Overview	6
2.2 Specific issues to be addressed	6
3. WORK DONE AND METHODOLOGY	7
3.1 Interviews	7
3.2 Analysing responses	7
4. BACKGROUND	8
4.1 The market and PSAA's role	8
4.2 Supply of auditors	10
4.3 Audit fees	11
4.4 Performance in the 2018/19 round of audits	12
5. THE VIEWS OF APPROVED PROVIDERS	13
5.1 Introduction	13
5.2 In the current contract, what works well and what works less well? (Contract holders only)	13
5.3 Number of lots and lot sizes	13
5.4 Composition of lots and the allocation of audits to each firm	14
5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years	14
5.6 The balance between quality and price used to evaluate the tenders	15
5.7 The degree of emphasis on social value / apprenticeships	15
5.8 Timing issues	15
5.9 The Code of Audit Practice	16
5.10 CIPFA's Code of Practice for local authority accounting	16
5.11 The quality monitoring regime	16
5.12 Other issues – fees	16
5.13 What factors would influence the firm's decision to bid in the next procurement round?	17
5.14 Is your firm's capacity to deliver local audits increasing or decreasing?	17
5.15 Is local auditing an attractive career option?	17
5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?	18
5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?	18
5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?	18
6. THE VIEWS OF NON-APPROVED PROVIDERS	19
6.1 Introduction	19
6.2 What capability does your firm currently have to carry out local audits?	19
6.3 Awareness of the local audit environment	19
6.4 Would your firm consider bidding for any local audits in the next round of procurement?	19
6.5 How important would the following factors be?	19

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

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Covering statement

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

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1. EXECUTIVE SUMMARY

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

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

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

Key issues

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

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

Firms that are not currently approved to operate in this market

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

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

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

Firms that are approved to operate in this market

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

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

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

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

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

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

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

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

Options available to PSAA

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

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

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

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

Options for attracting new entrants to the market include:

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

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

2. **PURPOSE AND SCOPE**

2.1 Overview

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

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

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

This exercise does not include:

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

2.2 Specific issues to be addressed

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

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

PSAA also cited the following 'options for consideration':

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

2.3 Other issues

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

3. WORK DONE AND METHODOLOGY

3.1 Interviews

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

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

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

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

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

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

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

3.2 Analysing responses

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

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

4. BACKGROUND

4.1 The market and PSAA's role

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

Abolition of the Audit Commission

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

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

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

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

Establishment of PSAA

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

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

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

The current appointing period

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

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

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

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

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

Code of Audit Practice

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

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

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

Regulation

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

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

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

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

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

Registration and licensing

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

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

Continuing change in the external audit and local audit sectors

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

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

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

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

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

4.2 Supply of auditors

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

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

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

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

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

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

4.3 Audit fees

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

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

4.4 Performance in the 2018/19 round of audits

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

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

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

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

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

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

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

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

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

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

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

What works well

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

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

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

What works less well

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

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

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

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

5.3 Number of lots and lot sizes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 The degree of emphasis on social value / apprenticeships

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

5.8 Timing issues

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

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

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

5.9 The Code of Audit Practice

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

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

5.10 CIPFA's Code of Practice for local authority accounting

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

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

5.11 The quality monitoring regime

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

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

5.12 Other issues – fees

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

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

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

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

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

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

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

Their comments included:

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

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

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

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

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

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

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

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

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

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

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

5.15 Is local auditing an attractive career option?

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

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

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

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

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

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

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

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

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

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

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

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

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

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

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

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

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

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

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

6.3 Awareness of the local audit environment

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

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

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

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

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

6.5 How important would the following factors be?

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

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

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

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

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

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

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

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

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

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

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

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

Other factors

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

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

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

Lot sizes, locations, values and composition of lots

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

The duration of the contract

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

The balance between price and quality used to evaluate the tenders

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

Whether lots include audits subject to FRC review

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

The legal right of electors to object

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

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

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

Positive comments included:

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

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

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

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

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

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

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

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

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

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

7. ISSUES AND OPTIONS

7.1 Introduction

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

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

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

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

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

7.3 The CBS report revisited

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

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

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

7.4 Opening up the market to new entrants

Issues

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

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

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

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

Options for PSAA

Options include:

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

In May 2019 the Cabinet Office made the following statement:

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

7.5 Supply side resources

Issues

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

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

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

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

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

Options for PSAA

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

7.6 Timing of audits

Issues

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

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

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

Options for PSAA

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

7.7 Fees and quality

Issues

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

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

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

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

Options for PSAA

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

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

7.8 Number of lots and lot sizes

Number of lots

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

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

Size of lots

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

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

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

Options for PSAA

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

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

7.9 Composition and location of lots

Allocation of audits

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

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

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

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

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

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

Locations

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

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

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

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

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

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

Specialist lots

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

Options for PSAA

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

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

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

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

7.10 Contract duration

Issues

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

Options for PSAA

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

7.11 Contract structure

Issues

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

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

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

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

Options for PSAA

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

7.12 Joint audit options

Issues

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

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

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

Options for PSAA

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

7.13 Collaborative response with other audit agencies

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

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

SAAA

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

NAO

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

Scotland, Wales and Northern Ireland

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

The obstacles to achieving closer co-operation include:

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

Options for PSAA

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

7.14 Creating a not-for-profit supplier

Issues

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

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

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

Options for PSAA

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

GLOSSARY

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

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE****25th March 2020****Risk Management – Corporate Risk Register**

OPEN	
CABINET MEMBER:	Councillor G Ballinger, Strategy And Finance
RESPONSIBLE OFFICER:	Corporate Director: Resources
CONTACT OFFICER:	Tracey Southall Tracey.southall@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Corporate Risk Register as at 31 st January 2020 Appendix 2 – Budget Risk Matrix 2020~23

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee of the current Corporate Risk Register and the Budget Risk Matrix attached as Appendices 1 and 2.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee are asked to CONSIDER AND NOTE the Corporate Risk Register and the associated mitigating actions as at 31st January 2020 and the 2020-23 Budget Risk Matrix.**

3. BACKGROUND

- 3.1 Council approved a Risk Management policy statement and strategy in February 2008. The approved Risk Management strategy requires that the risk register entries for the Council, both strategic and operationally is considered by the Audit Committee.
- 3.2 The authority manages a corporate risk register for the significant organisational risks. The risk registers are held within the Pentana Performance (formerly Covalent) computer application. Arrangements are in place to ensure that access is available to all officers who require it.
- 3.3 The Corporate Risk Register was subject to a fundamental review during 2011, this review was undertaken by the Corporate Management Team and the Cabinet in discussions facilitated by Zurich Municipal Management Services. Zurich also undertook a review of the 2016-17 Risk Register as part of an Information Governance Health Check reported to the Leadership Team in July 2016. This gave the leadership and management of risk by senior management a Level 3 – “Managed” rating and recommended that the Risk Register be refreshed to include more specific reference to Information Governance risk. This has been actioned and is included in Appendix 1.

- 3.4 Following a full collaborative procurement exercise this year Zurich Municipal were appointed to continue as the Council's insurers and will continue to provide specialist advice on Risk Management as this helps keep the costs of insurance down. The Risk Register is one of the key documents we provide to our insurers for the review of risk. We are also working with an Independent Specialist Insurance and Risk Management expert from Gallagher commissioned to work across the Insurance Consortium and this is proving beneficial to supplement the Zurich contract.
- 3.5 In addition to this external review, the Risk Register is reconsidered and updated annually by the Corporate Leadership Team (CLT). This ongoing review is led by the Corporate Director: Resources in liaison with the Cabinet Member for Strategy and Finance. The Corporate Risk Register for 2019-20 is attached at Appendix 1; it has been developed and approved by the Corporate Leadership Team with input from all Service Managers as appropriate.
- 3.6 The Corporate Risk Register is closely allied to the Budget Risk Matrix approved annually by Council as part of the Medium Term Financial Strategy and updated as part of the Quarterly Budget Monitoring reports attached as Appendix 2.

4. **KEY ISSUES**

- 4.1 Risk Management is embedded within the Council through the Corporate Risk Register. Any report considered by Members includes a Risk Management Section and in addition to this, specific registers are maintained and monitored separately for significant individual projects.
- 4.2 The Budget Risk Matrix is closely allied to the Corporate Risk Register and is reported to Members as part of the budget process. It is updated at least quarterly and reported as part of the regular Budget Monitoring Reports to Cabinet.
- 4.3 The external auditors Grant Thornton have recognised the work the Council has achieved in this area and has previously acknowledged *"There is also an effective Audit Committee in place (which GT attend and actively participate at) which provides robust challenge on financial matters and assurance on risk management arrangements"* Source: Value for Money conclusion 2014-15, Strategic financial planning and Financial governance pages 29 and 31 of agenda papers.

The Value for Money conclusion for 2017-18 provided by Grant Thornton as part of Annual Findings report to Audit Committee on 30th July 2018 that considers significant risks faced by the Council concluded that:

"We have completed our risk based review of the Council's value for money arrangements. We have concluded that Wyre Forest District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources" page 11 of the agenda
http://www.wyreforest.gov.uk/council/docs/doc53440_20180730_audit_agenda.pdf.

The 2018-19 Value for Money Conclusion as part of the Annual Findings Report reported to Audit Committee on 29th July 2019 raised no concerns around risk management.

- 4.4 The 2016-17 external review of the Risk Register by the Zurich Senior Strategic Risk Consultant in July also provides additional assurance for the Council. Zurich Municipal continues to work with officers to review and mitigate corporate risk as part of our insurance contract supplemented by the additional independent support from Gallagher.
- 4.5 It is appropriate for the Audit Committee to consider the current Corporate Risk Register attached at Appendix 1, updated to the end of January 2020 and agreed by CLT. The Corporate Risk Register will continue to be reported on a 6 monthly basis to the Audit Committee, following consideration by the Corporate Leadership Team.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 Regulation 3 of the Accounts and Audit Regulations 2015, state that:
“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.”
- 6.2 In addition Regulation 4 of the Accounts and Audit Regulations 2015 also state that:
“The financial control systems determined must include measures to ensure that risk is appropriately managed”.
- 6.3 The Council’s corporate Governance Framework considered by the Audit Committee on 17th March 2008, includes Core Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and management of risk.

7. RISK MANAGEMENT

- 7.1 The consideration and management of risk is good practice. Risk Management processes are required to effectively manage and evidence the management of key risks as an aid to achieving the Council’s corporate objectives and demonstrating good Corporate Governance allowing Managers to manage their risks and bring to a corporately acceptable level.
- 7.2 Financial risk continues to be the most significant risk facing this Council and many others and this is increased due to the uncertainty surrounding the Funding Reform. Sections 25-27 of the Local Government Act 2003 require the Section 151 Officer to report on the robustness of the estimates and the adequacy of its proposed financial reserves and this is included as Appendix 4 to the MTFS Council report approved by Council on 27th February 2019. Moving forwards, Appendix 4 of the MTFS Report for 2020-2023 approved by Council on the 26th February 2020 includes additional information on CIPFA’s Financial Resilience Index published late last year. Calculations for the Capital Portfolio fund purchases to demonstrate how proportionality compares to the size of the Council’s revenue budgets using the

detailed methodology in the latest guidance from CIPFA on Prudential Property Investment are also included in the latest report for the first time. These will be included in future Audit Committee Risk Management Reports.

- 7.3 The risks associated with the Capital Portfolio and Development Loans Fund Strategies and the steps to be adopted to mitigate them, were set out in depth in appendices 3/1 and 3/2 to the medium term financial strategy report, which was considered by Cabinet on 20 December 2016 (see hyperlink at section 11.7) and are regularly updated as part of the annual Capital Strategy reports.
- 7.4 To recognise risk across the public sector CIPFA has introduced a Financial Resilience Index and also a Financial Management (FM) Code. The first full year of compliance for the FM Code will be 2021-22. This reflects the recognition that organisations will need time to reflect on the contents of the code and can use 2020-21 to demonstrate how they are working towards compliance. This is closely allied to the Risk Register and updates will be provided in future reports.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 There are no discernible equality and impact assessments relating to this report.

9. CONCLUSION

- 9.1 The corporate risk management process ensures that risks are monitored and action taken to minimise the impact on the Council. The Corporate Risk Register and Budget Risk Matrix as attached at Appendices 1 and 2 provide a realistic overview of the major risks affecting the Council and will be monitored on a regular basis by the Corporate Leadership Team with six monthly reports to the Audit Committee.

10. CONSULTEES

- 10.1 Corporate Leadership Team.
10.2 Cabinet Member for Strategy and Finance.

11. BACKGROUND PAPERS

- 11.1 The Annual Audit Findings report – Audit Committee 31st July 2017
11.2 The Annual Audit Findings report – Audit Committee 30th July 2018
11.2 Risk Management: Corporate Risk Register Report – Audit Committee – 27th November 2019
11.3 Medium Term Financial Strategy Report 2020-23 – Cabinet 17th December 2019
http://www.wyreforest.gov.uk/council/docs/doc55298_20191217_cabinet_agenda.pdf
11.4 Medium Term Financial Strategy Report 2020-23 – Council 26th February 2020
http://www.wyreforest.gov.uk/council/docs/doc55603_20200226_council_agenda.pdf

Corporate Risk Register 2019/20







Risk Status	
	Alert
	High Risk
	Warning
	OK
	Unknown

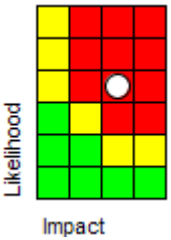
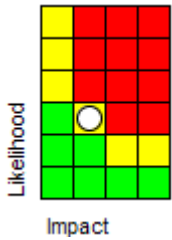
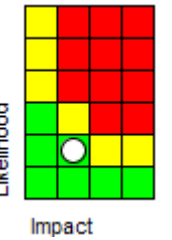

CORPRISK01 **Unable to implement and embed new ways of working.** The Council continues to undergo major transformational change that embraces review of processes, cultural and behavioural change, increased standards of delivery etc. Continue to use systems thinking methodology and apply current values in continuous improvement work. This transformational work must be carefully managed with risk mitigated by robust due diligence and use of external expertise and alternative service delivery vehicles as appropriate. The management restructure approved by Council on the 25th September 2019 will need to be carefully managed to ensure it does not impact adversely on the pace of transformational change.



Original Matrix		Current Risk Matrix		Target Risk Matrix		
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MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Regular CLT/ cabinet meetings focussed on change, demonstrating leadership by example and maintained by regular	Corporate Leadership Team; Ian Miller	31-Mar-2020	Monthly Cabinet/CLT meetings discuss a range of strategic issues and opportunities for change. Corporate Briefings delivered	100%	

updates at corporate briefings and team meetings etc.			in June and October 2019 and February 2020.		
Use of external expertise to identify and manage commercial opportunities and advise on the most appropriate mode of service delivery.	Corporate Leadership Team; Linda Draycott; Mike Parker	31-Mar-2020	Work ongoing.	80%	
Progress organisational development work programme	Rachael Simpson	31-Mar-2020	Presented to Group Leaders 18th September, considered by CLT on 15th October 2019 and now adopted.	100%	
Demonstrating robust and focussed leadership in all transformation activity	Corporate Leadership Team; Rachael Simpson	31-Mar-2020	Induction and Onboarding Due date amended due to other work priorities. Initial information gathering work continues. HR pages - COLIN There will be ongoing work on the HR pages to ensure they remain up to date and the self service element is developed. Developing leadership and personal capability Ongoing support and advice provided	90%	
Design and publish new Corporate Plan. Preliminary design work for process to be complete by the end of March 2019. Council approval scheduled for September 2019.	Ian Miller	30-Sep-2019	Approval and adoption confirmed by Council	100%	

CORPRISK02	<p>Unable to improve the economic prosperity of the district. Lack of vitality in the local economy - although the District is holding up reasonably well in the current economic conditions it still aims to stimulate growth to support the economic recovery and to support the recovery of the local economy. The Council is now in its eighth year of the State of the Area Programme which includes a number of projects to assist in the stimulation of economic recovery. The Council continues to host of the North Worcestershire Economic Development and Regeneration Service and be a member of two Local Enterprise Partnerships and continues to maximise the benefit of that position. The Business Rates Retention Scheme introduced in 2013/14 increases the incentive to promote growth as there is significant financial risk to this Council if we are unable to sustain the baseline level of the business rates reflected in government projections. The detail in relation to reform of the Business Rates System towards 75% retention and Fair Funding Review is still emerging. We will continue to review our position as more information is released. Membership of the Worcestershire Business Rates Pool has only mitigated this risk to a certain extent and economic growth is key to the future financial sustainability of the Council, this may change following Business Rates Reform. Risk of LEP review removing right to be in two LEPs. Successful bid for 75% rate retention pilot for 2019/20 but all the net overall gain</p>
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	will be invested in activity to reduce social care pressure (subject to a no detriment agreement for district councils). The 75% pilot will end 31st March 2020 so new pooling arrangements have been agreed for 2020-21 now it has been confirmed that the funding reform has been delayed to 2021/22. The impact of Brexit influences this risk.					
Original Matrix		Current Risk Matrix		Target Risk Matrix		

MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Continue to implement actions from the Worcestershire Housing Partnership Plan including any outcomes as a result of the review of the Local Development Plan.	Kate Bailey	31-Mar-2020	The Local Plan is in its final stages for Council approval before it is submitted to the inspector in March / April for an Examination in Public in the Autumn. Initial actions from the Partnership Plan are completed or underway and a new action plan will be developed for 2020-21. The Homelessness and Rough Sleeping Strategy has been refreshed and is published.	<div style="background-color: #4f81bd; width: 80%; height: 15px; display: inline-block;"></div> 80%	
Collection of Council Tax and Business Rates Local Council Tax Reduction Scheme requires approximately 5000 Customers to pay at least 20% of their Council Tax liability. Failure to pay their liability will result in lower collection rates. Business Rates Retention Scheme requires Local Authorities to focus on Business Rate collection to avoid further financial pressure.	Lucy Wright	31-Mar-2020	As at 1st Feb 20, Council Tax in year collection rates are at 94.82% compared to 94.62% last year. NNDR in year collection rates are at 91.85% compared to 91.83% last year. An additional £1m has been collected against previous years' arrears. The income banded Council Tax Reduction Scheme introduced in Apr 19 has gone smoothly and expenditure has remained virtually the same as before.	<div style="background-color: #4f81bd; width: 80%; height: 15px; display: inline-block;"></div> 80%	

Generation of additional Business Rates Income through continued delivery of regeneration and continued utilisation of policies for development loans fund and capital portfolio fund.	Mike Parker	31-Mar-2020	Second quarter 2019/20 1.7% decrease in the second quarter from £26,833,365 down to £26,379,839. The decrease is mainly due to an increase in small business rate relief being awarded. This is reimbursed via a S31 grant. The Valuation Office Agency has still not agreed the Supermarket appeals on the 2010 list, and the ATM appeals are still awaiting a final Court decision. The NHS hospitals Court case has been heard and found in favour of Local Authorities but an appeal against this decision has now been lodged.	<div style="border: 1px solid black; background-color: #ccccff; width: 80%; padding: 2px;">80%</div>	
Influencing a positive outcome to the LEP Review, taking account of the potential impact of the Brexit process.	Ian Miller; Mike Parker	31-Mar-2020	Government response to December submissions remains resolute in pursuance of no overlapping geographies. District members of combined LEPs now considering future position.	<div style="border: 1px solid black; background-color: #ccccff; width: 50%; padding: 2px;">50%</div>	
Redevelopment of former Lloyds Garage site and adjoining land (STC.4)	Mike Parker	31-Oct-2020	PSP continue to work with design team on layout, specification and costs; pre planning application discussions underway.	<div style="border: 1px solid black; background-color: #ccccff; width: 50%; padding: 2px;">50%</div>	
Transfer of tenants from SPACE to Forest House	Mike Parker	31-Aug-2019	Keys handed back on former SPACE unit with dilapidations as agreed with landlord completed; there remains some dilapidations subject to ongoing negotiations with landlord.	<div style="border: 1px solid black; background-color: #ccccff; width: 100%; padding: 2px;">100%</div>	
Redevelopment of former Frenco site adjacent Hoobrook Enterprise Centre to provide 9 new units	Mike Parker	31-May-2020	Brickwork progressing on units 1-3, slab laid to units 4-9. On course for completion early April. Marketing of units now underway.	<div style="border: 1px solid black; background-color: #ccccff; width: 70%; padding: 2px;">70%</div>	
Purchase of land and six industrial units	Mike Parker	31-Mar-2020	Local Development Order approvals	<div style="border: 1px solid black; background-color: #ccccff; width: 35%; padding: 2px;">35%</div>	

on Silverwoods Way (land opposite Aldi)			issued for two sets of industrial units; Planning Committee agreed TPO works at February meeting; final planning permission for drive through expected imminently. Works on site expected to begin late spring. Council contract to purchase 6 units nearing finalisation.		
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CORPRISK03 **Unable to deliver good quality, affordable homes.** The need for good quality, decent and affordable homes in the district is increasing but supply relative to demand in decreasing. The risk is increased by the emerging national position regarding changes in the National Planning Policy Framework the Voluntary Right to Buy pilot in the West Midlands and the First Homes Proposals.

Original Matrix		Current Risk Matrix		Target Risk Matrix		
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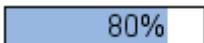

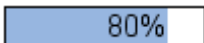



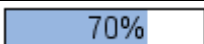

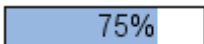

MITIGATING ACTIONS




Description	Managed By	Due Date	Latest Note		
Continue to implement actions from the Worcestershire Housing Partnership Plan including any outcomes as a result of the review of the Local Development Plan.	Kate Bailey	31-Mar-2020	The Local Plan is in its final stages for Council approval before it is submitted to the inspector in March / April for an Examination in Public in the Autumn. Initial actions from the Partnership Plan are completed or underway and a new action plan will be developed for 2020-21. The Homelessness and Rough Sleeping Strategy has been refreshed and is published.	<div style="border: 1px solid black; padding: 2px; width: 50px; text-align: center;">80%</div>	




CORPRISK04 **Unable to deliver a sustainable budget for the long term.** The outcome of the Fair Funding Reform has been deferred until 2021-22 and represents a significant risk. There has been a 1 year Spending Round for 2020-21. This confirmed the Reset and Fair funding review will be put back to 2021-

<p>2022. Negative RSG should be removed for 2021, The working assumption is that NHB Legacy payments will be paid. Business Rates 75% pilots to end after 2019/20. £54 million additional funding for homelessness has been confirmed for 2020-21 but WFDC share is uncertain. The 2019/22 Medium Term Financial Strategy projected a much lower level of government funding over the next 2 years with RSG phased out completely by 2019/20 and NHB being reformed for which no funding is paid than previously expected The success of this strategy is reliant on the delivery of significant savings to close the funding gap of circa £2m per annum by 2021. This ambitious programme of savings and income generation must be carefully managed by the Leadership team (officers and members) and achieved. The reliance on external income streams/funding brings with it increased risk around the continuation of these income streams that are based on the decisions of third parties. The Business Rates Retention Scheme and the imposition of further reductions/cessation in Government funding streams represents significant corporate financial risk. These risks include the uncertainty around the future of New Homes Bonus as it is clear that there will be a significant reduction in this funding stream. Business Rates reform, growth and the risk of Appeals resulting in lower Business Rates yield represent a key risk to future sustainability. The two significant council policies for development loans fund and capital portfolio fund are intended to generate both housing and business growth whilst also generating a net revenue income stream to help alleviate the significant financial pressures. The introduction of a Financial Resilience Index by the Chartered Institute of Finance and Accountancy (CIPFA) may prompt further challenge to our future financial resilience. The Council is also responding to the findings of the follow up visit by the LGA peer review team. This is closely allied to Corporate Risk 03.</p>						
Original Matrix		Current Risk Matrix		Target Risk Matrix		

MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Prepare budgets in accordance with all legislative requirements and the Council's Finance Strategy, taking into account the significant changes in the funding regime, increased risk and diminishing reserves available and reduced capacity following various restructures. Brexit adds further uncertainty and complexity.	Tracey Southall	31-Mar-2020	The Medium Term Financial Strategy went to Cabinet on December 17th and was considered by the Strategic Review Panel on the 8th January and the 30th January. Final approval at February Council meeting.	100%	

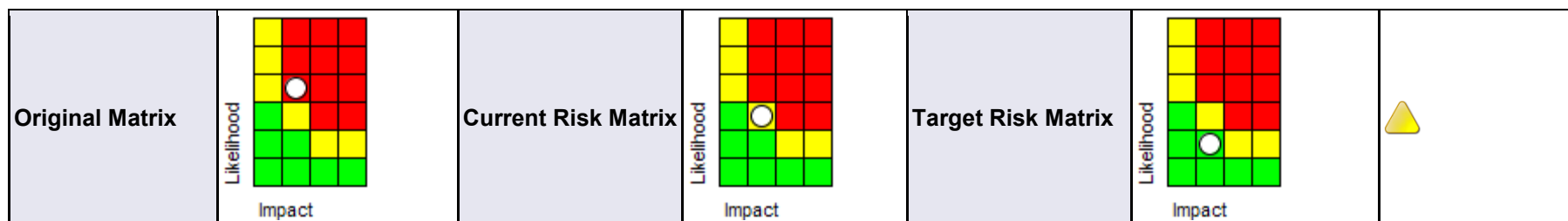
Collection of Council Tax and Business Rates Local Council Tax Reduction Scheme requires approximately 5000 Customers to pay at least 20% of their Council Tax liability. Failure to pay their liability will result in lower collection rates. Business Rates Retention Scheme requires Local Authorities to focus on Business Rate collection to avoid further financial pressure.	Lucy Wright	31-Mar-2020	As at 1st Feb 20, Council Tax in year collection rates are at 94.82% compared to 94.62% last year. NNDR in year collection rates are at 91.85% compared to 91.83% last year. An additional £1m has been collected against previous years' arrears. The income banded Council Tax Reduction Scheme introduced in Apr 19 has gone smoothly and expenditure has remained virtually the same as before.		
Municipal Mutual Insurance Clawback - Budget Pressure	Tracey Southall	31-Mar-2020	A potential claim is currently being considered but liability not confirmed at this early stage.		
Regular meetings to facilitate effective communications. Regular additional Cabinet/ CLT meetings in 2019/20 to focus on future financial strategy and Wyre Forest Forward savings achievement.	Corporate Leadership Team; Ian Miller	31-Mar-2020	Programme of meetings for 2020 including local plan. Regular meetings between Cabinet and CLT on future direction of the Council and closing the financial gap as well as major issues such as the Local Plan.		
Implementation of policies for development loan fund and capital portfolio fund. Use of external support/expertise to manage fund and produce each business case/perform due diligence. MHCLG investment guidance and revised Codes of Practice for Prudential Code and Treasury Management reflected in Capital Strategy. Close monitoring of economic outlook/external factors influencing market rates including the impact of the whole percentage increase in PWLB rates as at October 2019.	Caroline Newlands; Mike Parker; Tracey Southall	31-Mar-2020	Potential Development Loan Fund proposal in pipeline subject to final details being agreed, expected to report to Members in March if it is to proceed.		
Business Rates Retention Scheme. To continue to contribute to the reform	Tracey Southall	31-Mar-2020	The Worcestershire treasurers continue to work with LG Futures. NNDR1 for 2020-21		

debate to maximise the council's future position.			has been submitted. Forecast projections for 2019-20 look positive.		
To continue to progress the Corporate Fraud role aligned to the Internal Audit Team to focus on non-benefit fraud, continue to raise awareness of national issues as part of the Fighting Fraud and Corruption Locally Agenda working in close liaison with Services and ICT; to raise awareness of risks associated with cyber fraud and management of information. There will also be close liaison with the Compliance resource within the Revenues team with updates to the Audit Committee.	Cheryl Ellerton; Tracey Southall	31-Mar-2020	The annual report in respect of the Counter Fraud arrangements in place looking back for 2018~19 and forward for 2019~20 was presented to the Audit Committee on 29th July. Progress continues to be made on raising awareness to demonstrate the commitment of the Council to tackling fraud and protecting the public purse. The outcome of the matches with Wyre Forest District Council to other national data sets as part of the mandatory National Fraud Initiative for Payroll, Creditors, Housing Benefits, Council Tax Reduction {Local} Scheme and Licensing data have been assessed and any actions or investigated. In addition the Council have also voluntarily participated in the Cipfa Fraud & Corruption Tracker Survey. The Council continue to receive regular updates on the latest fraud and cyber scams, which are publicised within Wyred Weekly with detailed updates to specific Service Managers. As at 28th February, the Council have submitted the mandatory data sets for Single Person Discount and Electoral Register matching with matches currently under review.	80%	
Green street depot 2020 improvement and investment plan and related office moves and service efficiencies	Steve Brant; Linda Draycott	31-Mar-2020	All works complete apart from off site s278 highways work which were agreed to be completed with WCC after the Christmas period.	95%	
Implementing redevelopment proposals to generate new revenue streams	Mike Parker	31-Mar-2020	Reports expected to Members in March 2020 on further acquisition in district which will increase the Capital Portfolio Fund	75%	

			spend.		
Monitor impact of Universal Credit	Lucy Wright	31-Mar-2020	Full service Universal Credit (UC) was rolled out in Wyre Forest in Nov 2018. To save additional admin costs, the Council Tax Reduction Scheme was changed to an income banded model. Implementation has been successful and overall expenditure of the scheme has remained the same. The effects of UC is having an impact on customer demand as more residents are struggling financially mainly at the start of their UC claim. This is resulting in increased numbers of DHP applications and efforts to prevent evictions by working with landlords in the social and private sector. CTRS council tax collection rates are lower than overall collection rates and we have increased resource in the recovery team to help this.	80%	
Respond to findings of peer review including production of action plan	Ian Miller	31-Mar-2020	Action plan discussed with Cabinet in July and shared with staff. Now in implementation phase	90%	
To monitor the potential impact of the government's waste strategy in terms of securing Government funding and the logistical implementation of changes. This could reduce current commercial income streams	Linda Draycott; Ian Miller	31-Mar-2020	Reference to the potential impact of the waste strategy included in the new MTFS. Environment Bill reintroduced January 2020, further clarification of Government proposals awaited.	20%	

CORPRISK05

Council 'misses' important issues and/or is in breach of a requirement. The Council is a small organisation but it is still expected to respond to, and comply with, new legislation, strategies, audit requirements, health and safety requirements and inspection regimes to meet our insurer's high standards. The potential impact of Brexit also increases this risk.



MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Support and advice on major strategic projects to ensure sound and robust arrangements including Capital Portfolio and development loans fund.	Jane Alexander	31-Mar-2020	Work complete as at 31st March 2020	<div style="width: 100%;"><div style="background-color: #ADD8E6; width: 100%;"></div></div> 100%	
To ensure the leadership team keeps abreast of statutory changes in legislation and seek to influence consultation and seek to prepare for changes in legislation.	Caroline Newlands	31-Mar-2020	Work complete as at 31st March 2020	<div style="width: 100%;"><div style="background-color: #ADD8E6; width: 100%;"></div></div> 100%	
Training Support and advice for Service Managers from Zurich Municipal Risk Management Specialists as part of our insurance contract	Caroline Newlands; Tracey Southall	31-Mar-2020	In discussions with Zurich on training area selection for this year.	<div style="width: 60%;"><div style="background-color: #ADD8E6; width: 60%;"></div></div> 60%	
Continue to improve and develop Strategic management of information governance risks including follow up of Zurich Municipal in previous annual review recommendations	Corporate Leadership Team; Tracey Southall	31-Mar-2020	Meetings continue to be productive and actions progressed.	<div style="width: 75%;"><div style="background-color: #ADD8E6; width: 75%;"></div></div> 75%	
Budgetary Control - ongoing development of reporting to include demand-led commercial income and early identification of variances to approval	Tracey Southall	31-Mar-2020	Quarter 3 budget monitoring report is in progress to be considered by March Cabinet.	<div style="width: 70%;"><div style="background-color: #ADD8E6; width: 70%;"></div></div> 70%	


Monitor the impact of Brexit and report on any significant changes in requirement as appropriate	Corporate Leadership Team	31-Mar-2020	The Chief Executive is the nominated lead for Brexit and shares relevant updates appropriately.	<input type="text" value="20%"/>	
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CORPRISK06 **Implementation of ICT Strategy.** There continues to be significant investment in the development of technology at the Council. The ICT Strategy was agreed in February 2018 as part of the budget process with a further approval of £653k approved in February 2020. This is being implemented across the authority with progress and governance provided by the ICT Strategy Board. A number of new websites have been implemented and the focus continues to be on supporting the move to greater self-service by customers, ensuring continued PSN compliance, update systems to ensure best value / efficiencies and refreshing ICT platforms / systems to deliver ICT services / and systems over the Medium Term Financial Strategy. There are emerging issues around some integration limitations that may hinder some transformation workstreams. A risk of reliance on key suppliers for network products also exists as the ICT market is very fast paced and companies can frequently be subject to merger/changed ownership. The Council needs to be aware of software support expiry dates; consideration of this issue is included within the ICT Strategy for replacement of corporate system i.e. Office and business systems. The Council needs to maintain high levels of Cyber Security to protect against malware, hacking etc.

Original Matrix		Current Risk Matrix		Target Risk Matrix		
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MITIGATING ACTIONS

Description	Managed By	Due Date	Latest Note		
Continue to deliver the ICT Strategy to achieve additional efficiency savings.	Dave Johnson	31-Mar-2023	See detailed updates below.	<input type="text" value="53%"/>	
Supporting the Commercial Agenda including digital by default. Review the booking systems and replace, review and replacement of GIS and on-line planning	Dave Johnson; Dave Johnson	31-Mar-2023	Digital Platform – Contract for MyCouncilService self-service platform has now been signed. Indicative rollout program agreed. Training and design stages have already commenced with training for operational services, Revs / Bens, Media and ICT staff W/C 17th Feb.	<input type="text" value="50%"/>	
Digital by Default is the expected method	Dave Johnson; Dave	31-Mar-2023	Digital Platform – Contract for	<input type="text" value="50%"/>	

<p>of interacting with the Authority</p>	<p>Johnson</p>		<p>MyCouncilService self-service platform has now been signed. Indicative rollout program agreed. Training and design stages have already commenced with training for operational services, Revs / Bens, Media and ICT staff W/C 17th Feb. IVR- Work on this has been put on hold until the new digital platform has been implemented as it would have meant duplicating some of the work e.g. links to webpages and forms. IDOX - New public access module with additional functionality will go live with new IDOX system</p>		
<p>Application Software</p> <ul style="list-style-type: none"> o MS Office o Planning system o Garage system o CRM 	<p>Dave Johnson</p>	<p>31-Mar-2023</p>	<p>Planning / Land Charges – Following tasks have been completed or are in progress</p> <ul style="list-style-type: none"> . Soft go live of the system, namely Idox is being used to register new applications . All Land Charges and Planning data has been returned from IDOX including images and mapping data. This has already to be loaded into test system, once signed off by users it will be loaded into the Live system. Links to planning portal to import plans into IDOX system have proved challenging but hopefully most of the issues have or are near to being resolved. . Public access page for old and new cases using old and new system is live. Old link will be removed once IDOX fully live and migrated data has been loaded into the live system. . Old Land Charges, Information@work DIP and Planning servers will be retired once system is fully live and embedded. 	<p>55%</p>	

			<p>Civica ICON:- Date for Phase 2 of Icon project including recurring card payments, smart suspense and hosted distribution has commenced with the build in the test environment progressing. Testing plan to be agreed and go live date. Due to workloads this hasn't been progressed any further in the last few months. Meeting held W/C 3rd February to put timetable together for smart suspense we currently wait for Civica's response.</p>		
<p>ICT Infrastructure</p> <ul style="list-style-type: none"> o New Wireless o Complete Firewalls o Complete data line install o Shoretel upgrade o VMWare upgrades o Mobile Phones 	Dave Johnson	31-Mar-2023	<p>SAN / Servers – All of the hardware has now been delivered and installed at WFH and Green Street.</p> <p>Schedule of work has just been agreed and XMA and HP are progressing well with build and configuration of the system. Approximately 30 servers and their associated data have been migrated to the new infrastructure already. The majority of server / data migrations will then be carried out by ICT to not only keep costs down but also allow a degree of flexibility when this is done. Majority of servers will be done out of hours over the weekend of 22nd / 23rd to minimise user downtime.</p> <p>As part of the project the Business Continuity site will be moved to Green street along with the setup of a new backup server to mirror the backup server implement in April/ May 2019 at WFH.</p>	<div style="border: 1px solid black; width: 100px; height: 20px; background-color: #e6f2ff; position: relative;"> 60% </div>	▶
<p>Review and Update Security Systems including Firewalls/ Web filter/New Email Gateway and associated modules/Network monitoring and reporting (Solarwinds / Firewalls etc)</p>	Dave Johnson	31-Mar-2023	<p>PSN – Health check report in December. We are currently addressing the critical and high vulnerabilities the majority being patches and windows upgrades for PC's / Laptops and Servers. A number of 3rd</p>	<div style="border: 1px solid black; width: 100px; height: 20px; background-color: #e6f2ff; position: relative;"> 50% </div>	▶






			<p>party software patches have been rolled out over January along with the normal windows updates. Over 75 laptops have been upgraded or replaced along with 60 Thin clients. Looking to purchase vulnerability scanning software in the new financial year.</p> <p>Looking at tightening checks on external firewalls and applying Geo-location blocking Regions / Countries Will look at something similar for email gateway</p> <p>New Cyber Security group with wider attendance and scope has been set up.</p>		
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CORPRISK07 **Not able to maintain a skilled and motivated workforce.** Against the background of the current local agreement until March 2021. Council on 25th September 2019 agreed a move back toward annual pay increases in line with the National Pay Agreement from 2021. The Council needs to continue to maintain a workforce with adequate capacity, skills, experience and motivation – so still being seen by staff as a good employer. The Council has started to experience recruitment and retention issues in some areas e.g. HGV drivers. Various restructures following the move to the Wyre Forest House have provided slimmer management structures and more devolution of responsibility which should assist in motivation and retention of the workforce, alongside a management development programme. The age profile of the workforce and increasing number of employees aged 55 and over needs to be considered together with succession planning in future workforce restructures. The Council has responded to findings from the peer review follow up visit that relate to workforce issues.

Original Matrix		Current Risk Matrix		Target Risk Matrix			
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MITIGATING ACTIONS

Description	Managed By	Due Date	Latest Note		
Progression of Wyre Forest Futures	Rachael Simpson	31-Mar-2020	Nominations sent to CLT for approval.	100%	

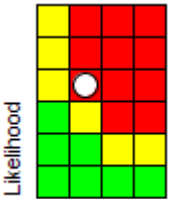

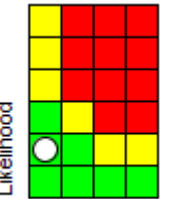

Leadership Development Programme and training and development budget to support it.			New programme to commence in April.		
Develop initiatives to support any workforce through organisational change including involvement of staff through suggestion scheme and System Thinking. The continued practice of regular staff surveys allows the leadership team to develop initiatives to respond positively to feedback and suggestions.	Rachael Simpson	31-Mar-2020	Ongoing through the Organisational Development (OD) Strategy and Wyre Forest Forward Programme. New People and OD implemented Autumn 2019 - action plan developed.	<div style="width: 75%;"><div style="background-color: #4f81bd; color: white; padding: 2px;">75%</div></div>	
Respond to findings of peer review including production of action plan	Ian Miller	31-Mar-2020	Action plan discussed with Cabinet in July and shared with staff. Now in implementation phase	<div style="width: 90%;"><div style="background-color: #4f81bd; color: white; padding: 2px;">90%</div></div>	
Undertake review of pay grading structure	Ian Miller; Rachael Simpson	31-Dec-2020	Review to be undertaken as part of approach to pay increases for the period from April 2021. The national living wage continues to increase sharply and will soon overlap with the lowest pay band in WFDC. Council in September 2019 agreed that pay increases for 2021 onwards will be decided by the national negotiations. Grading review commissioned from West Midland Employers.	<div style="width: 70%;"><div style="background-color: #4f81bd; color: white; padding: 2px;">70%</div></div>	
Implement action plan in response to findings of staff survey	Corporate Leadership Team; Rachael Simpson	31-Mar-2020	Completed to date	<div style="width: 100%;"><div style="background-color: #4f81bd; color: white; padding: 2px;">100%</div></div>	
Undertake and implement Organisational Review	Ian Miller	31-Mar-2020	Significant restructuring of Community Wellbeing and Environment Directorate confirmed including decision by Council on 25th September; fully implemented by 31st March 2020. Further proposals may emerge from review of all services under transformation framework.	<div style="width: 90%;"><div style="background-color: #4f81bd; color: white; padding: 2px;">90%</div></div>	

CORPRISK08	<p>Capacity to do everything is insufficient. A flexible resource is required to do everything that the Council has committed itself to – transformation, core service review, and review of partnerships to commence in 2019. The pace of change and need to continue to deliver key projects, represent a significant resourcing risk. This leads to concerns about sufficient capacity to deliver the Wyre Forest Forward Savings/ efficiency plan and the ability to provide effective leadership for the management of the Council. This is particularly true given the increased savings targets from 2020/21 as a result of reductions in central government funding and the additional resource required to deliver the policies for development loans fund and capital portfolio fund. The impact of Coronavirus (COVID-19) represents a risk to business need.</p>					
	Original Matrix		Current Risk Matrix		Target Risk Matrix	


MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Ensure resources are monitored and managed to protect capacity issues when Systems reviews take place. The Innovation Fund/General Risk Reserve is used to allocate funding to support interventions and consideration will be given to topping up these reserves at year end.	Ian Miller	31-Mar-2020	Allocations from the fund are regularly considered by CLT and past allocations reviewed if no longer required. Further top up made from final accounts savings in 2019/20 if possible.	90%	▶
Ensure involvement of appropriate staff from both within and outside WF20 onto projects to spread resourcing and maximise the opportunities for success.	Ian Miller	31-Mar-2020	Cross directorate working groups on Digital First and Information Governance. Staff from appropriate teams involved in other projects e.g. Capital Portfolio Fund.	90%	▶
Progressing changes to monitoring attendance levels. Working closely with employees, maintaining conversation and development opportunities in accordance with our values and the	Rachael Simpson	31-Mar-2020	On going support being provided to employees to assist with their well-being and supporting managers to proactively manage staff sickness Increased focus on data analytics to	90%	▶

Worcestershire works well agenda.			identify 'hot spots' and specific reasons for absence Mental Health Standards developed. Time to Talk Pledge signed by Leader and Chief Executive.		
Utilise external support for property investment /management expertise to expedite implementation of policies on development loans fund and capital portfolio fund.	Mike Parker	31-Mar-2020	Quarter 4 portfolio performance reported to January Cabinet/CLT; some further information required on valuations and property management to ensure comprehensive quarter 1 report next time.	75%	

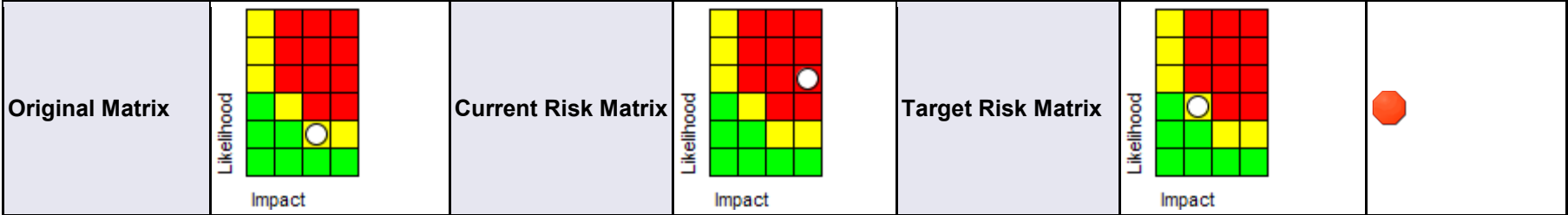
CORPRISK09 **Unable to effectively improve the Council's reputation.** The Council's reputation is extremely important, progressive improvement is important and can be subject to political influence that is difficult to predict and control. Effective consultation and communication with increased focus on customer engagement (both internal and external) are key to this gradual progression - along with purposeful service delivery.

Original Matrix		Current Risk Matrix		Target Risk Matrix		
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MITIGATING ACTIONS

Description	Managed By	Due Date	Latest Note		
Continue with Corporate programme of Employee, Member and public Engagement	Suzanne Johnston-Hubbold	31-Mar-2020	Regular Chief Executive and Senior Communications and Engagement Officer meetings held monthly.	100%	

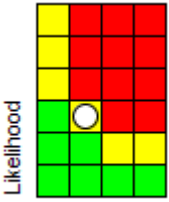

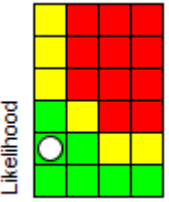

CORPRISK10 **Unable to ensure a secure network which would make ICT vulnerable to attacks and threats.** The Council has successfully achieved PSN compliance but this needs to be managed and maintained. ICT to regularly review and assess threats and impacts on the network and generate a formal risk/incident log and any remedial account required or acceptance of residual risk by the organisation where judged appropriate.



MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Ongoing patching of servers/workstations/software	Dave Johnson	31-Mar-2020	PSN – We continue to address the critical and high vulnerabilities the majority being patches and windows upgrades for PC's / Laptops and Servers. To assist ICT in the future to identify vulnerabilities earlier and spread workload we are looking to purchase Nessus vulnerability scanning software in the new financial year. Patching is an on going task	<div style="border: 1px solid black; width: 80px; height: 20px; background-color: #ADD8E6; display: flex; align-items: center; justify-content: center;"> 80% </div>	
Annual Penetration tests and network scans.	Dave Johnson	31-Mar-2020	Continue to address all the critical and high vulnerabilities the majority being patches and windows upgrades for PC's / Laptops and Servers. Mitigation report has been sent to cabinet office that is currently being assessed. Cabinet office require updates until all issues are fully closed. To assist ICT in the future to identify vulnerabilities earlier and spread workload we are looking to purchase Nessus vulnerability scanning software in the new financial year. A number of major systems still need to be upgraded to supported versions of windows	<div style="border: 1px solid black; width: 80px; height: 20px; background-color: #ADD8E6; display: flex; align-items: center; justify-content: center;"> 70% </div>	

<p>Review and Update Security Systems including Firewalls/ Web filter/New Email Gateway and associated modules/Network monitoring and reporting (Solarwinds / Firewalls etc)</p>	<p>Dave Johnson</p>	<p>31-Mar-2023</p>	<p>PSN – Health check report in December. We are currently addressing the critical and high vulnerabilities the majority being patches and windows upgrades for PC's / Laptops and Servers. A number of 3rd party software patches have been rolled out over January along with the normal windows updates. Over 75 laptops have been upgraded or replace along with 60 Thin clients. Looking to purchase vulnerability scanning software in the new financial year. Looking at tightening checks on external firewalls and applying Geo-location blocking Regions / Countries Will look at something similar for email gateway New Cyber Security group with wider attendance and scope has been set up.</p>	<p>50%</p>	
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CORPRISK11 **Unable to deliver satisfactory services through alternative Service Delivery Models including Shared Service arrangements and the potential devolution of services public service reform and/or combined arrangements.** The Council is partner in a number of Shared Services - Worcestershire Regulatory Services, Emergency Planning, Water Management, Payroll, Building Control, Economic Development and Regeneration - and is either host to the Shared Service or a partner in receipt of a service. The Council has entered into a Limited Liability partnership with Public Sector PLC and has approved the set up of a LATC in readiness for property/housing development utilising the capital portfolio fund where this is the most viable option. However there are always risks around the management of such arrangements, whether the work is being led by another organisation or led by the Council. This risk cross refers to CORPRISK 14

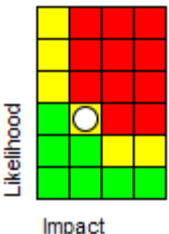

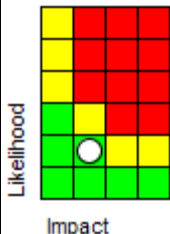

<p>Original Matrix</p>		<p>Current Risk Matrix</p>		<p>Target Risk Matrix</p>		
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MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
To ensure that governance arrangements are appropriate for all forms of service delivery including Public Private Partnerships (PPPs) and Local Authority Trading Companies (LATCs).	Caroline Newlands; Tracey Southall	31-Mar-2020	Continue to maintain a watching brief and input to governance arrangements as appropriate.	80%	

CORPRISK12	Effective/strategically focussed political leadership to cope with continuing significant challenges of reduced funding and changing legislative framework. The move to All-out Elections every four years from 2019 may help political stability but there is a risk of not having a political majority which could undermine decision making. Members will still need regular training and all-party updates to ensure skills and knowledge are kept up to date in these challenging times when effective leadership is key to future sustainability.					
	Original Matrix		Current Risk Matrix		Target Risk Matrix	

MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Ensure Members are regularly updated on corporate plans and proposals including Wyre Forest Forward. This also includes regular meetings of the Group Leaders and the Corporate Induction Plan undertaken in May - July 2019.	Ian Miller	31-Mar-2020	Monthly meeting with Group Leaders since May. Induction programme completed by end of July.	100%	
Ensure newly elected members taking up lead positions in the Council are mentored to enable their skills to be fast tracked	Ian Miller	31-Mar-2020	Training being provided for the Chairs of committees and support offered for other leading councillors. LGA provided development session for Cabinet, Leader and Deputy Group Leader ICHC have	100%	








			attended leadership programmes.		
Training programme for all councillors for 2019-2023 to be designed, including induction training for all elected in May 2019 and refresher training in 2021 for planning and licensing	Ian Miller	30-Apr-2019	Delivery of programme for 2019/20 has been completed.	<div style="border: 1px solid black; width: 50px; height: 15px; background-color: #4F81BD; display: flex; align-items: center; justify-content: center;">100%</div>	

CORPRISK13						
Localism: Sustaining the pace and effectiveness of asset and service transfers to third sector parties, Parish and Town Councils						
Original Matrix		Current Risk Matrix		Target Risk Matrix		

MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
Effective operational arrangements for the oversight of governance for mutually beneficial partnerships with third parties.	Corporate Leadership Team; Caroline Newlands; Tracey Southall	31-Mar-2020	Continue to maintain a watching brief.	<div style="border: 1px solid black; width: 50px; height: 15px; background-color: #4F81BD; display: flex; align-items: center; justify-content: center;">80%</div>	
To ensure this Council keep abreast of the latest reorganisation developments and participates in the reorganisation debate to ensure it is not left in an isolated position.	Ian Miller	31-Mar-2020	Government has not announced any central plans for reorganisation but supporting locally led mergers. Situation continues to be monitored.	<div style="border: 1px solid black; width: 50px; height: 15px; background-color: #4F81BD; display: flex; align-items: center; justify-content: center;">90%</div>	
Continue to operate robust arrangements to secure future joint service delivery agreements with Parish and Town Councils utilising the £50k Localism Fund	Linda Draycott	31-Mar-2020	Currently developing 5-10 year plans with individual town councils to achieve savings and protect vulnerable service areas such as parks, events, play areas.	<div style="border: 1px solid black; width: 50px; height: 15px; background-color: #4F81BD; display: flex; align-items: center; justify-content: center;">60%</div>	

CORPRISK14	Establishing a group structure - Local Authority Trading Company Council on 21st February 2018 approved a group structure of Local Authority Trading Companies. Risks associated with this separate legal entity include legal, financial, governance and reputational factors. These will need to be managed and mitigated on an ongoing basis to protect both the LATC's and the Council's position.					
Original Matrix		Current Risk Matrix		Target Risk Matrix		

MITIGATING ACTIONS					
Description	Managed By	Due Date	Latest Note		
That external advice is taken to ensure the Council acts within correct legislation on individual proposals as appropriate.	Mike Parker	31-Mar-2020	External advice from Mazars including Anthony Collins Solicitors confirms ability for Council to act within current legislation	<input type="text" value="0%"/>	
Any financial transactions between the Council and the LATC e.g. lending through the Development Loan Fund will be subject to individual scrutiny and due diligence including financial viability sensitivity analysis before final decisions are proposed/taken.	Mike Parker; Tracey Southall	31-Mar-2020	Holding company registered with Companies House, subsidiary to follow, no business conducted as yet. Details of company below: Name & Registered Office: Wyre Forest (Holdings) Limited Wyre Forest House Finepoint Way Kidderminster Worcestershire DY11 7WF Company No. 11451232	<input type="text" value="0%"/>	
Through the shareholder agreement and through the establishment of the business plan within which the LATC	Mike Parker	31-Mar-2020	Company registered but no transactions taken place yet	<input type="text" value="0%"/>	

operates, the Council will be able to ensure that all financial arrangements are viable					
In the event that a catastrophic event requires it the LATC will be closed down - an exit strategy will be considered as a contingency plan to protect the Council against unknown events in the future.	Caroline Newlands; Mike Parker; Tracey Southall	31-Mar-2020	Company registered but no transactions taken place yet	0%	
The development activity of the LATC is financially self sustainable and not reliant upon funding from the Council	Tracey Southall	31-Mar-2020	Company registered but no transactions taken place yet.	0%	
The Council ensures that only those officers and members of the Council who are able to take objective decisions are appointed to the LATC	Caroline Newlands	31-Mar-2020	Achieved with first appointment made - delegated decision published.	0%	
The LATC is able to purchase support from existing council officers until such time as it is able to or requires the appointment of its own staff	Mike Parker; Tracey Southall	31-Mar-2020	Company registered but no transactions taken place yet.	0%	
The LATC Business Plan identifies a suitable pipeline of development opportunities and this will be refreshed and updated on a regular basis.	Mike Parker	31-Mar-2020	Company registered but no transactions taken place yet	0%	
Changes to Prudential and Treasury Management Codes are considered in conjunction with the revised MHCLG Guidance on Investments and MRP and specific advice sought if further clarity is required on risk in relation to specific investment proposals in relation to the LATC Group structure.	Helen Ogram; Tracey Southall	31-Mar-2020	Company registered but no transactions taken place yet with the company as property acquisitions are held in Council's name.	0%	
Using the external advice from Mazars individual projects will be monitored as the LATC business progresses.	Caroline Newlands; Mike Parker; Tracey Southall	31-Mar-2020	Company registered but no transactions taken place yet. So far the work that has been done has been to confirm the LATC was not the right vehicle to use for	0%	

			property proposals.		
Further training and guidance will be taken to ensure sufficient knowledge is developed. The PWC VAT Helpline the Council already subscribes to will be used and other specialist advice taken as appropriate.	Helen Ogram; Tracey Southall	31-Mar-2020	Company registered; no transactions yet taken place. Knowledge and learning is actively being progressed as part of work with PSP and also property acquisition work with the LATC perspective considered in each case but not utilised so far. To be included as part of due diligence in specific business case proposals.	0%	

CORPRISK15 **Local plan:** risk that timely and effective delivery of local plan might be jeopardised if issues raised in the consultation on the Pre-Submission Plan are not responded to positively. If realised, this risk could delay adoption of the Plan and expose the Council to significant additional costs associated with the Examination in Public; in a worst case scenario, the Inspector could require the Council to revisit some stages of the Plan to achieve 'soundness'.

Original Matrix		Current Risk Matrix		Target Risk Matrix		
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MITIGATING ACTIONS

Description	Managed By	Due Date	Latest Note		
Continue to advise Local Plans Review Panel, Cabinet and Council on steps necessary to remove objections and potential objections to plan and/or to minimise their impact on the examination in public – particularly points raised by statutory consultees	Mike Parker	31-Dec-2020	Submission Plan agreed by Local Plan Review Panel, Overview & Scrutiny and Cabinet in February; final decision by Council expected on 20th February. On target to submit to Secretary of State in March/April.	50%	
Implementation of robust Local Plan up to 2036	Mike Parker	31-Dec-2020	Submission Plan agreed by Local Plan Review Panel, Overview & Scrutiny and	75%	

			Cabinet in February with final decision expected by Council on 20th February. On course to submit to Secretary of State to hold Examination from April 2020.		
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Budget Risk Matrix

ISSUE	BUDGETARY RESPONSE
<p>Quadrant 1 - Low Risk, Low Impact</p> <p>1. External Funding, Partnerships</p> <p>2. Impact of Investment Returns</p> <p>3. Underlying Borrowing Requirement (CFR)</p>	<p>Keep under periodic review</p> <p>Continue to evaluate sustainability of each scheme as part of project appraisal.</p> <p>Continue to monitor and report as appropriate. The Governor of the bank of England has indicated that the rate may increase further from the current 0.75% over the terms of the MTFP. Balances available for investment are reducing over the MTFP and this together with the low returns has been taken into account in the base budget. We continue to work with Link Asset Services in this area.</p> <p>The rising CFR over the term of the Budget Strategy will be carefully monitored in close liaison with Link Asset Services to gauge both the timing and type of external borrowing.</p>
<p>Quadrant 2 - High Risk, Low Impact</p> <p>1. Exit from the European Union</p>	<p>Consider Action</p> <p>To-date the impact has not been significant but this will be closely monitored.</p>
<p>Quadrant 3 - Low Risk, High Impact</p> <p>1. Finance Strategy/Accountability</p> <p>2. Homelessness Reduction Act</p> <p>3. Council Tax – increase in base</p> <p>4. Wyre Forest House final sign off of all retentions</p> <p>5. Industrial Estates and Other Property</p> <p>6. Lion Fields Gateway - Future Development</p> <p>7. Land Charges Ring fencing /Charging/HIPs</p> <p>8. ICT Investment/channel shift</p> <p>9. Shared Services Joint working</p> <p>10. Budgetary Control/Austerity Measures</p>	<p>Review Risk - Contingency Plans</p> <p>Council are required to adopt a three year Balanced Budget Strategy.</p> <p>Supplementary estimate agreed at September Cabinet, use of New Street facility, close monitoring and management of housing advice service brought back in-hour from June 2018.</p> <p>Assumption of increase of 300 pa should hopefully be realised. Managed closely by Chief Executive and CLT/Cabinet</p> <p>Managed through Property Disposal Strategy</p> <p>Development opportunities continue to be explored.</p> <p>Reduced income allowed for within Base Budget reduces the scale of any challenge.</p> <p>ICT Strategy Group oversee/enhance the governance, planning and delivery arrangements of the strategy between ICT and council service areas.</p> <p>Shared Services partnerships continue to contribute to collaborative efficiencies but will be monitored to ensure risk is managed and mitigated.</p> <p>Continue to discourage non-essential expenditure, monthly budget monitoring reports provide more management information. Focus on income generation and innovative alternative service delivery models.</p>
<p>11. Prudential Code for Capital Accounting – Borrowing rates</p> <p>12. Diminishing Reserves/Cash flow</p> <p>13. Pension Costs</p>	<p>External borrowing is £35m, PWLB rates increased with no notice by whole percent in early October 2019; Link Asset Services continue to provide technical advice and are looking for alternative sources of cheaper borrowing.</p> <p>Cash flow management will be tighter given reduction in capital and revenue reserves and use of the Link Cash flow model is being used to improve management information to help mitigate any risk in this area</p> <p>2016 revaluation contained within existing budgets but risk remains going forward for this significant expenditure area. 2019 Revaluation confirmed rather than a move to every 4 years</p>

<p>14. Recovery of Icelandic Investments</p>	<p>Under £1m in outstanding and work will continue to achieve maximum recovery.</p>
<p>Quadrant 3 Continued 15. MMI Claw Scheme 16. Depot Site – capital investment 17. Information Governance 18. Income Generation 19. Change to Pay and Grading Scheme 20. Management Restructures</p>	<p>Further claim received and settled, ear marked reserve held. Currently on schedule and on budget; this will be carefully managed Investment is required to provide a sustainable depot site now the decision has been taken to retain and invest in this key asset. Internal working group chaired by the DOR is reviewing this area to ensure the Council continues to be safeguarded. Income Generation Group continues to work to protect/expand market share. External report commissioned from CommericalGov has informed marketing strategy and new Commercial Manager now recruited. The impact of these proposals will be managed by Cabinet/CLT with particular regard to the impact on the overall funding envelope To be managed by the Chief Executive and Cabinet</p>
<p>Quadrant 4 - High Risk, High Impact 1. Government Grant –Funding Changes, further Spending Reviews and New Homes Bonus 2. Business Rates Retention Scheme, appeals, Pooling and revision of funding arrangements. Baseline reset 2020, impact on growth 3. Devolution debate and Combined Authorities 4. Impact of Transformational Programme, Localism agenda 5. Council Tax Collection levels including impact of CTRS Scheme 6. Government’s Waste Strategy 7. Capital Receipts - Realisation of to fund expenditure 8. Environment and Economic Regeneration 9. Changes to Housing Benefit Scheme – universal credit/localisation of support for Council Tax</p>	<p>Immediate Action Significant issue given the scale of the Spending deficit. The Strategic Review Panel process will assist Wyre Forest Forward coordinating Councils future Plans. Application for pan-Worcestershire Pilot (including Fire Authority) submitted for 2020-21. Proposed changes to funding arrangements and delays continue to cause uncertainty and risk. The Baseline reset could also result in a decrease in this key funding stream. Our regeneration programme is a mitigation factor. Monitored closely by CLT/Cabinet Managed by CLT/Cabinet with reports to Group Leaders. Collaborative working with town and parish councils. The impact of the revised Local Scheme will be kept under review by the Corporate Director: Resources Revised CTRS scheme from April 2019 to align with Universal credit Assumptions in relation to decreased collection rates have been made in the Council Tax Base calculations as a result of the Local Council Tax Discount Scheme and these will be carefully managed and reported on. Impact will be monitored as more information emerges and reported as appropriate. Capital Programme funding reflects realistic timescale for the realisation of asset disposal receipts. Temporary borrowing will be used when necessary. The Council continues to be proactive in this area and this is closely monitored by Cabinet/CLT Introduction of Universal Credit form November 2018 is being carefully managed and impact monitored</p>

<p>10. Wyre Forest Forward Efficiency savings</p>	<p>Progress continues to be monitored and reported regularly to members.</p>
<p>11. Potential Local Government Reorganisation</p> <p>12. Realignment of area/political area</p> <p>13. Commercial Income</p> <p>14. Car parking income</p> <p>15. WCC overlapping budget proposals – adverse impact</p>	<p>Macroeconomic area strategically assessed and managed by the Leadership team.</p> <p>Kept under strategic review by the Leadership team in liaison with two LEPS. The three LEP footprint proposals are also within our radar.</p> <p>Commercial Activity Programme Board monitors income achievement and key performance metrics included in quarterly Cabinet Budget Monitoring reports</p> <p>Income levels usages closely monitored, new simplified policy is proposed. Earlier timetable for scrutiny.</p> <p>Liaison with WCC to work to minimise/mitigate the impact of any overlapping proposals to protect the financial position of both parties as far as possible.</p>

BUDGET RISK MATRIX 2020-23

