

# RIBBLE VALLEY BOROUGH COUNCIL

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please ask for: OLWEN HEAP  
direct line: 01200 414408  
e-mail: olwen.heap@ribblevalley.gov.uk  
my ref: OH/CMS  
your ref:  
date: 18 November 2019

Council Offices  
Church Walk  
CLITHEROE  
Lancashire BB7 2RA

Switchboard: 01200 425111  
Fax: 01200 414488  
www.ribblevalley.gov.uk

Dear Councillor

The next meeting of the **ACCOUNTS & AUDIT COMMITTEE** is at **6.30pm on WEDNESDAY, 27 NOVEMBER 2019** in the **TOWN HALL, CHURCH STREET, CLITHEROE.**

I do hope you can be there.

Yours sincerely

CHIEF EXECUTIVE

To: Committee Members (copy for information to all other members of the Council)  
Directors  
Grant Thornton  
Press

## AGENDA

### Part 1 – items of business to be discussed in public

1. Apologies for absence.
- ✓ 2. Minutes of the meeting held on 24 July 2019 – copy enclosed.
3. Declarations of Pecuniary and Non-Pecuniary Interests (if any).
4. Public Participation (if any).

### DECISION ITEMS

- ✓ 5. Annual Audit Letter 2018/19 – report of Grant Thornton – copy enclosed.
- ✓ 6. Review of the Council's Governance Arrangements (Member Conduct) – report of Chief Executive – copy enclosed.
- ✓ 7. Revisiting Member/Officer Protocol – report of Chief Executive – copy enclosed.

## INFORMATION ITEMS

- ✓ 8. Internal Audit Progress Report 2019/20 – report of Director of Resources – copy enclosed.
- ✓ 9. Grant Thornton Progress Update – report of Grant Thornton – copy enclosed.
- ✓ 10. Additional Audit Fees – report of Grant Thornton – copy enclosed.
- ✓ 11. Review of Local Authority Financial Reporting and External Audit – Call for Views – report of Director of Resources – copy enclosed.

## Part II - items of business **not** to be discussed in public

None.



# The Annual Audit Letter for Ribble Valley Borough Council

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**Year ended 31 March 2019**

**07 Aug 2019**



# Contents



Your key Grant Thornton  
team members are:

**Mark Heap**

Engagement Lead

T: 0161 234 6375

E: mark.r.heap@uk.gt.com

**Sophia Iqbal**

Engagement Manager

T: 0161 234 6372

E: sophia.s.iqbal@uk.gt.com

**Jeanette Allen**

In Charge Auditor

T: 0161 953 6341

E: Jeanette.T.Allen@uk.gt.com

## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

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## Appendices

- A Reports issued and fees

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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ribble Valley Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts and Audit Committee as those charged with governance in our Audit Findings Report on 24 July 2019.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £432,000, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 29 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit findings report to the Council on 24 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 Nov 2019. We will report the results of this work to the Accounts and Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Ribble Valley Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

## Acknowledgement

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**August 2019**

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £432,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £21,000, above which we reported errors to the Accounts and Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether the:

- accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2018/19, to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Council requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£18 million) and the sensitivity of this estimate to changes in key assumptions.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li><li>evaluated the competence, capabilities and objectivity of the valuation expert;</li><li>wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;</li><li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li><li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register.</li></ul>	<p>Our audit work did not identify any issues in respect of valuation of land and buildings.</p>



Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b>  The Council'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 (£15 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• updated 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 evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested 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;</li> <li>• undertook 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;</li> <li>• received assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We are also awaiting the revised actuary statement from Mercers.</li> </ul>	<p>Our audit work did not identify any issues in respect of valuation of net pension liability.</p>

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed the design effectiveness of management controls over journals, analysed the journals listing and determined the criteria for selecting high risk unusual journals. We completed testing on unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• obtained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence.</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Going concern material uncertainty disclosures</b></p> <p>Management has determined that the Council is a going concern considering:</p> <ul style="list-style-type: none"> <li>• Cash flow forecasting across subsequent periods</li> <li>• Anticipated funding settlements in the medium term</li> <li>• Tax raising powers of the Council</li> </ul> <p>We have considered the assessment and sought corroborating evidence in support of the conclusion drawn.</p>	<p>As part of our audit work we considered:</p> <ul style="list-style-type: none"> <li>• whether the Council's arrangement's for assessing going concern in relation to the Council were appropriate and adequate</li> <li>• key personnel involved and their respective roles and whether appropriate to the circumstances of the Council.</li> </ul> <p>We did not identify a material uncertainty in relation to the Council's ability to continue as a going concern.</p>	<p>We have considered management's assessment of going concern as the basis for preparing the Council's accounts.</p> <p>As a result of this work there was no anticipated impact on our audit opinion, and our proposed opinion was unmodified in respect of going concern.</p>
<p><b>Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission was not granted. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £365,000, and an increase in service costs for the 2019/20 year of £365,000.</p> <p>Management's view is that the impact of the ruling is not material for Ribble Valley Borough Council, and will be considered for future years' actuarial valuations.</p>	<p>As part of our audit work we reviewed the analysis performed by the actuary, and considered that the approach taken to arrive at this estimate was reasonable.</p>	<p>Although we took the view that there is sufficient evidence to indicate that a liability is probable, we satisfied ourselves that there was not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 29 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 24 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Account in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed that the Council was below the audit threshold.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We did not exercise any of these powers.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Ribble Valley Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b>            Financial stability based upon the Medium Term Financial Strategy (MTFS) and achievement of savings – it is likely that the Council will achieve a balanced budget in this regard for 2019/20 but that pressure will begin to mount from 2020/21 onwards, particularly with respect to the fair funding review and any future changes around business rates retention.</p>	<p>As part of our work we reviewed the Council’s arrangements for budgeting and monitoring of the ongoing financial position to assess whether the basis for assumptions and ongoing forecasts are realistic and appropriately managed.</p>	<ul style="list-style-type: none"> <li>• Budget monitoring reports are produced quarterly and are taken to each relevant committee; they are then reported to the Policy and Finance Committee as whole for the Council. The Council also has a budget working group which reviews the budgets on a quarterly basis.</li> <li>• Review of the budget monitoring report highlight the forecast year end position for the revenue budget compared to revised budget, as well as reporting on the capital programme and forecasted reserves position at year end. They summarise the key elements of the forecast position with suitable narrative around some of possible year end mitigations. Any significant areas of expenditure slippage are summarised and there is informative narrative provided; in January 2019 the budget for 2018/19 was amended due to actual price increases.</li> <li>• Whilst financial challenges facing the Council do exist, a four year financial plan is in place designed to address these. Levels of reserves have increased in recent years.</li> <li>• The Council have also secured arrangements to set up the revised NDR pool with an increased number of members. A robust memorandum of understanding is in place and agreed by all members of the pool.</li> </ul> <p>We have established that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position of the Council.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and we can confirm there were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	30,956	30,956	40,202
Housing Benefit Grant Certification	4,995	4,995	11,191
<b>Total fees</b>	<b>35,951</b>	<b>35,951</b>	<b>51,393</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £30,956 assumes that the scope of the audit does not significantly change. The scope of the audit has changed, which has led to additional work. Details are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
<b>Total</b>		<b>£1,500</b>

Fee variations are subject to PSAA approval.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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 keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No.

meeting date: WEDNESDAY, 27 NOVEMBER 2019  
 title: REVIEW OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS  
 (MEMBER CONDUCT)  
 submitted by: CHIEF EXECUTIVE  
 principal author: DIANE RICE, HEAD OF LEGAL AND DEMOCRATIC SERVICES

## 1 PURPOSE

1.1 To provide Members with an opportunity to familiarise themselves with, and review, the Council's arrangements for ensuring good standards of Member conduct.

1.2 Relevance to the Council's ambitions and priorities

- Community Objectives – } The Council has a duty to promote and maintain high standards of conduct by its Members. Review of the arrangements the Council operates supports that duty.
- Corporate Priorities – }
- Other Considerations – }

## 2 BACKGROUND

2.1 In 1994 the Nolan Committee was formed to address concerns about standards of conduct in public life. The principles the Committee proposed are still the key principles guiding Member Conduct. In 2000 the Local Government Act 2000 created a standards regime aimed at embedding those principles in the way Councils operated, by way of a national code of conduct and a national body to oversee regulating the process called Standards for England.

2.2 The Localism Act 2011 modified these arrangements to return responsibility for ensuring good standards of Member conduct to local Councils.

2.3 The Localism Act made several key changes, it enabled Councils to choose their own Code of Conduct and abolished the Standards Board for England. Prior to the Localism Act Councils were required to have a Standards Committee and to have independent Members on that Standards Committee. The Localism Act changed this to require Councils to have an Independent Person. Councils could decide whether or not to have a separate Standards Committee or to place the responsibility for Member conduct with an existing Committee. This Council agreed that the responsibility for Member conduct should be included in the terms of reference of Accounts and Audit Committee.

2.4 This Council's current arrangements were developed between January 2012 and June 2013, details can be found on the document attached as Appendix 1.

2.5 The main elements of the Council's arrangements are as follows:

1. The Council's Code of Conduct – this can be viewed on the Council's website at [https://www.ribblevalley.gov.uk/downloads/file/9066/code\\_of\\_conduct\\_for\\_members\\_part\\_7](https://www.ribblevalley.gov.uk/downloads/file/9066/code_of_conduct_for_members_part_7)
2. The terms of reference for the Accounts and Audit Committee – these can be viewed at [https://www.ribblevalley.gov.uk/download/downloads/id/9059/powers\\_and\\_duties\\_of\\_the\\_council\\_and\\_its\\_committees\\_part\\_31.pdf](https://www.ribblevalley.gov.uk/download/downloads/id/9059/powers_and_duties_of_the_council_and_its_committees_part_31.pdf)

3. The process for making a complaint which can be viewed at [https://www.ribblevalley.gov.uk/info/200388/councillors/1306/complaint\\_about\\_an\\_elected\\_membercouncillor](https://www.ribblevalley.gov.uk/info/200388/councillors/1306/complaint_about_an_elected_membercouncillor)
4. The model arrangements for dealing with a complaint can be viewed at [https://www.ribblevalley.gov.uk/meetings/meeting/730/accounts\\_and\\_audit](https://www.ribblevalley.gov.uk/meetings/meeting/730/accounts_and_audit)
5. The rules which would apply in the event of a matter being referred to the Sub-Committee which can be viewed at Appendix 2.
6. The protocol dealing with the role of the Independent Person can be viewed at [https://www.ribblevalley.gov.uk/meetings/meeting/783/accounts\\_and\\_audit](https://www.ribblevalley.gov.uk/meetings/meeting/783/accounts_and_audit)

Since the Council's arrangements were put in place the following complaints have been dealt with.

	<b>Complainant</b>	<b>Member</b>	<b>Outcome</b>
<b>2015</b>	Public	Borough	Local Resolution
	Public	Parish	Local Resolution
<b>2016</b>	-	-	-
<b>2017</b>	Public	Borough	No evidence of breach
	Public	Borough	Local Resolution
	Councillor	Borough	Accounts & Audit - July 2019
<b>2018</b>	Councillor	Borough	Local Resolution
	Councillor	Borough	Local Resolution – 1 still open pending training
	Councillor	Borough	
	Councillor	Borough	
	Councillor	Borough	
	Councillor	Borough	
<b>2019</b>	Councillor	Borough	No evidence of breach

### 3 ISSUES

- 3.1 The purpose of bringing this report to Committee is to provide an opportunity for Members to look at their own arrangements, which in general follow the national model, to determine whether improvements can be made. The Council's procedures must comply with the requirements of the Localism Act 2011.
- 3.2 Members will be aware that there has recently been a high-profile referral through the complaints procedure which created considerable discussion, and Members have already indicated that they wish to consider whether the process can be improved as a result of the problems which were experienced in the most recent case.
- 3.3 Notwithstanding this Members should primarily have regard to the more usual path which complaints take, rather than making changes based on a single atypical case.
- 3.4 Members of the Accounts and Audit Committee have been given an opportunity to put forward any suggestions which they wish to be considered and these are included in the paragraphs set out below.

- The Council's Code of Conduct – Members may wish to consider whether they are satisfied that the Council's current Code of Conduct is fit for purpose. Matters for consideration include the following:
  - Is it sufficiently detailed?
  - Should there be a specific reference to bullying?
  - Should additional interests, similar to those shown on the related party relationships form be included as part of Members' declaration of non-pecuniary interests, ie the form to show both pecuniary and non-pecuniary interests.
  
- The Terms of Reference for the Accounts and Audit Committee – Members may wish to consider whether the current arrangements are satisfactory. Matters for consideration include the following:
 

Would a Standards Committee be more effective?

  - Is the current arrangement (Accounts and Audit Committee) which deals with governance in a transparent manner, reinforced by the presence of external auditors at each meeting, working effectively?
  - When the Council had a separate Standards Committee the Agenda was often light, dealing mainly with training, what would the workload of a separate Standards Committee involve?
  - The Council has a role in supporting good standards of Member conduct at Parish Council level, would a separate Standards Committee have more scope to provide this support, as it would have fewer areas of responsibility?
  
- The Arrangements for Independent Persons – The processes in place must focus on the importance of preserving their independence
  - what is the potential workload?
  - It has been suggested that the number should be increased to 4, would this reduce potential conflict of interest?
  - How should they be recruited?
  - How should they be trained?
  - Should they be paid for the time spent on Council business?
  - Are suitable indemnity arrangements in place?
  
- The Process for Making a Complaint – Details about how to make a complaint are set out on the Council's website, there have been no comments from Members of the public which suggest that they have any difficulty finding and dealing with the complaints information and form. Matters for consideration include:
  - How should the process deal with the case of a complaint by one Councillor about another, either from the same or a different political group?
  - In the case of Members of the same political group there is already a process in place to deal with disputes, a Code of Conduct complaint raises different issues than a complaint about treatment within a political group. Would it be helpful to remind Councillors who wish to complain about another Councillor that they should consider using their own complaints process first?
  - Should different political groups have reciprocal arrangements?
  
- The Model Arrangements for Dealing with a Complaint – It is necessary to reinforce the role of the local Council. Matters for consideration include:
  - How does the Council maintain confidentiality?
  - How does the Council deal with local resolution?
  - How should the Council deal with a Member who refuses to accept the Council's authority or its adopted procedures?
  - Should Councillors act as witnesses?
  - What is the distinction between investigating a complaint as opposed to formulating a defence?
  - Should there be time limits for responding/submitting information?
  - What are the resource implications of the changes?

- What is the role of Members generally, particularly those who are Members of the Committee?
  - Should there be conventions in place about the role of officers?
  - The rules which would apply in the event of a matter being referred to the Sub-Committee – Matters for consideration include:
    - Representation for both the complainant and Subject Member – should this be permitted?
    - Do the Committee endorse the rules agreed by the Sub-Committee and attached as Appendix 2?
- 3.5 Due to the number of issues which need to be considered and their complexity it is suggested that, as on the previous occasion when the complaints procedure was reviewed, a working group of Members should be appointed to oversee the process.
- 3.6 Those Members would then report back with their provisional findings to the next meeting of the Accounts and Audit Committee on 12 February 2020.
- 3.7 The recommendations approved by the Committee could then be referred as necessary to Policy and Finance Committee or Council with a view to implementation from 2020/2021 municipal year which commences in May 2020.
- 3.8 A training session in-between the two meetings of the Accounts and Audit Committee can be arranged to assist Members as they consider the Council's governance arrangements if required.

#### 4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications

- Resources – N/A
- Technical, Environmental and Legal – None save as referred to above.
- Political – N/A
- Reputation – None save as referred to above.
- Equality & Diversity – N/A

#### 5 RECOMMENDED THAT COMMITTEE

- 5.1 Appoint a working group comprising 5 Members of the Accounts and Audit Committee to consider the Council's current governance arrangements and to make recommendations to Committee to be considered at the meeting on the 12 February 2020.
- 5.2 Support the proposal to provide relevant training to all Members in advance of considering the final recommendations.

DIANE RICE  
HEAD OF LEGAL AND DEMOCRATIC SERVICES

MARSHAL SCOTTNAME  
CHIEF EXECUTIVE

For further information please ask for Diane Rice, extension 4418.

DATE	COMMITTEE	MINUTE
24 January 2012	Policy & Finance	<p>RESOLVED:</p> <ol style="list-style-type: none"> <li>1. Noted the report of the Head of Legal and Democratic Services related to changes to the standards regime resulting from the Localism Act 2011.</li> <li>2. The Head of Legal and Democratic Services undertook to report the concerns of the Committee about the existing standards regime to the Standards Committee at its next meeting.</li> </ol>
1 February 2012	Standards	<p>RESOLVED: To recommend to Policy and Finance Committee:</p> <ol style="list-style-type: none"> <li>1. The Standards Committee and procedures set out for dealing with the complaint should be retained as at present (with the amendment to procedures that a Councillor should be told immediately about the nature of a complaint made against them and not the identity of the complainant until July 2012 where the responsibilities of the Committee should be transferred to a new Standards Committee that should include Parish Council representation if possible;</li> <li>2. The format of the current Code of Conduct should be retained with relevant modifications made to it to comply with the requirements of the Localism Act 2011;</li> <li>3. The procedure for dealing with misconduct complaints should be referred to the new Standards Committee;</li> <li>4. The Monitoring Officer be authorised to put arrangements in hand to recruit 2 independent persons for the new regime in consultation with a working group of 6 members comprising Mr Dearing, Mrs Walsh from the Standards Committee; 2 representatives from Policy and Finance Committee and 2 representatives from Personnel Committee;</li> <li>5. Action be deferred relating to the Register of Interests/Dispensations/Standing Order issues pending further regulations with a report to be submitted to Full Council on 24 April 2012;</li> <li>6. Any changes to the Council's constitution be considered by existing Standards Committee if timing permits.</li> </ol>

27 March 2012	Policy & Finance	RESOLVED: That consideration of this matter be deferred with a further report coming to the June Policy and Finance Committee.
12 June 2012	Policy & Finance	RESOLVED: That <ol style="list-style-type: none"> <li>1. it be a recommendation to Full Council that the Department of Communities and Local Government Code to form the basis of the Council's Code of Conduct modified to reflect the final regulations in respect of disclosable pecuniary and non-pecuniary interest;</li> <li>2. it be a recommendation to Full Council that the Council's duties under the Localism Act relating to Member conduct, promoting high standards of Member conduct and investigating complaints for discharge by the Council's Accounts and Audit Committee;</li> <li>3. the Head of Legal and Democratic Services be authorised to prepare new Terms of Reference for Policy and Finance and Accounts and Audit Committee for approval by Council;</li> <li>4. the Working Group to recommend who the Council should select as their independent persons to advise Members on matters of conduct; and</li> <li>5. a report be prepared for the September meeting of Parish Councils' Liaison Committee by the Head of Legal and Democratic Services informing all Parish Councils of the Council's decision in relation to its Code of Conduct and its impact on Parish Councils.</li> </ol>
27 June 2012	Accounts & Audit	RESOLVED: That the information report about changes to Standards Committee be noted.
17 July 2012	Full Council	RESOLVED: The Council approve the appointment of Mr IB Dearing and Mr IS Taylor as Independent Persons to assist with Standards.
22 August 2012	Accounts & Audit	RESOLVED: That Committee <ol style="list-style-type: none"> <li>1. endorse the arrangements set out at 3.1 of the Head of Legal and Democratic Services report relating to the Register of Pecuniary Interests;</li> <li>2. recommend the proposed amended Standing Order set out at 3.2(2) to Policy and Finance Committee;</li> <li>3. delegate the Grant of Dispensations a Sub-Committee comprising 3 Members of the Accounts and Audit Committee convened by the proper officer, in this case the Monitoring Officer as set out at 3.3; and</li> <li>4. authorise the use of procedures set out at 3.4 for complaints investigation as now amended.</li> </ol>

26 June 2013	Accounts & Audit	RESOLVED: That Independent Person protocol be adopted with the amendments made at the training session.
29 March 2017	Accounts & Audit	Re: appointment of Independent Persons RESOLVED: To confirm the continuation in post of the current Independent Persons and to review these appointments in 3 years' time.
26 July 2017	Accounts & Audit	RESOLVED: That the report prepared by the Head of Legal and Democratic Services be noted.



**EXTRACT OF PROCEDURE RULES FOR STANDARDS COMMITTEE HEARINGS TAKEN FROM THE MONITORING OFFICER HANDBOOK**

1. General

- 1.1 These rules govern the conduct of hearings by the Hearing Sub-Committee.
- 1.2 The hearing will be into the written allegation(s) of failure to comply with the Code of Conduct made to the Council's Monitoring Officer and investigated in accordance with the arrangements adopted by the Council.
- 1.3 The hearing may cover more than one allegation or set of allegations and more than one investigation, if the Sub-Committee is satisfied that it is expedient and fair.
- 1.4 In these rules:

"The Monitoring Officer" means the officer designated as the Monitoring Officer to the Council, provided that if the Monitoring Officer is unable to act or has a conflict of interest, (for example as a result of having conducted an investigation into the complaint) then another person or persons may perform the Monitoring Officer's role and these rules will be construed accordingly.

"The Subject Member" means the member or co-opted member against whom the allegation of failure to comply with the relevant code of conduct has been made.

"The Investigator" means the person who has conducted an investigation into the allegation or his or her representative at the hearing.

"The Complainant" means the person who has made the written allegation(s) of failure to comply with the Code of Conduct.

2. Composition and Voting

- 2.1 The Sub-Committee will comprise three voting Members drawn from the Accounts and Audit Committee, one of whom shall be appointed or elected to Chair the meeting. The Members will be selected in accordance with the legislation on political balance on Committees.
- 2.2 The quorum for a meeting is three.
- 2.3 All matters before the Sub-Committee will be decided by a simple majority of votes cast. In the case of equality of votes, the Member chairing the meeting will have a second or casting vote.
- 2.4 An Independent Person appointed by the Council will normally be present at the hearing. The Sub-Committee must take the Independent Person's views into account before reaching a decision, but he or she will not participate in the hearing or in the decision as a member of the Sub-Committee. Alternatively if the Independent Person will not be present for all or part of the hearing, he or she may submit his or her views to the Sub-Committee in writing.

### 3. Before the Hearing

- 3.1 Before the hearing the Monitoring Officer will, in order to identify the issues and the evidence to be considered, and any procedural issues, provide the Subject Member with the Investigator's report and the accompanying evidence and invite the Subject Member and the Investigator to:
- a. indicate the facts that are agreed and those that are not;
  - b. indicate the issues in dispute;
  - c. indicate whether they intend to introduce any additional evidence and the witnesses they intend to call to give evidence;
  - d. state whether they would like all or any part of the hearing to be conducted in private, and if so why.
  - e. state whether they intend to be present at the hearing;
  - f. state whether they intend to be represented at the hearing and if so by whom.
- 3.2 The Monitoring Officer will copy the replies to the Subject Member and the Investigator or if they so request to their representatives.
- 3.3 If the Member chairing the meeting, or, if none has yet been appointed or elected, the Chairman of the Accounts and Audit Committee, considers that the additional evidence or any of the witnesses that are proposed to be called will not assist the Sub-Committee to determine the relevant issues (for example because the evidence or the witnesses evidence will not be relevant, or will unnecessarily duplicate other evidence and prolong the hearing, then in consultation with the Monitoring Officer he or she may direct that the evidence or the number of witnesses should be limited. The Monitoring Officer will advise the Subject Member and the Investigator of the direction.
- 3.4 The Monitoring Officer will prepare a report to the meeting including the Investigator's report and the accompanying evidence. The proper officer will send the report to the Members of the Sub-Committee and make it available to the public in accordance with the statutory requirements, excluding public access to any part of the report or background papers which, in the proper officer's opinion, relate only to any part of the hearing which is not likely to be open to the public.

### 4. Request for Adjournment and Absence of Parties

- 4.1 If, before the hearing, the Subject Member requests an adjournment, or indicates that he or she will not be present or represented, the Monitoring Officer will consult the Member chairing the meeting or if none has yet been appointed or elected, the Chairman of Accounts and Accounts Committee. The Member consulted will consider any written representations made by the Subject Member and may direct that either the hearing be adjourned or that the hearing will take place.
- 4.2 If the hearing then takes place, or if there has been no prior request but the Subject Member is not present at the start of the hearing, or if the Subject Member is present or represented and makes an oral request for an adjournment, then the Sub-Committee will decide whether to adjourn or proceed with the hearing, taking into account the representations that have been made. The Sub-Committee will consider whether it is satisfied with the reasons given for a request for an adjournment or whether, in exceptional circumstances it is not so satisfied, and whether it is in the public interest to hear the allegations expeditiously. In the latter case the Sub-Committee may proceed with the hearing in the Subject Member's absence.

4.3 The complainant may attend the meeting if called as a witness, or otherwise but need not do so.

5. Representation at the Hearing

5.1 The Subject Member may choose to be accompanied or represented at the hearing by a professional representative, fellow Councillor, friend or colleague.

5.2 The complainant can be accompanied by a friend or colleague. Unless called as a witness, or requested by the Sub-Committee to address them, the complainant has not right to participate in the meeting.

6. Conduct of the Hearing

6.1 Subject to the exercise of discretion by the Chairman the order of business but the hearing shall be as is set out below.

6.2 The Chairman may vary the order of business at his or her discretion where he or she considers it expedient and fair to do so.

6.3 The Sub-Committee may adjourn the hearing at any time.

6.4 The Sub-Committee can decide at any time to resolve to exclude the press and public for the following part of the hearing or the remainder of the hearing if it is likely otherwise that confidential or exempt information will be disclosed, in accordance with the provisions of the Local Government Act 1972.

6.5 The first items of business shall be:

- a. the election of the chairman if none has been appointed.
- b. any apologies for absence.
- c. any declarations of interest.
- d. if relevant at this time, consideration whether to exclude the press and public.
- e. if relevant consideration of any request for an adjournment and/or whether to proceed with the hearing in the absence of the Subject Member.

6.6 The Chairman will then introduce (if present) the Members of the Sub-Committee, the Independent Person, the Subject Member, any person representing the Subject Member, the Investigator, the Monitoring Officer and any other officers present to clerk the meeting or provide legal advice to the Sub-Committee. The Chairman will explain their roles and outline the procedure for the hearing.

6.7 Any witnesses of fact present in the room will then leave the room apart from the Subject Member. In exceptional circumstances, the Chairman may permit the complainant to remain in the room, unless it would be unfair to do so.

6.8 The evidence presented must be relevant to the issues under consideration and should not be unduly repetitious.

6.9 Presentation of the Investigation report.

- a. The Investigator will present his or her report and accompanying evidence and call his or her witnesses, who may include the complainant. The Investigator will not normally be permitted to introduce new issues or evidence at this stage.

- b. The Subject Member or his or her representative may question the Investigator on the content of his or her report and may question the witnesses called by the Investigator on their evidence.
- c. The Members or the Sub-Committee may question the Investigator on the content of his or her report and may question the witnesses called by the Investigator on their evidence.

#### 6.10 Presentation of the Subject Member's Case

- a. The Subject Member or his or her representative will present his or her case and evidence and call his or her witnesses.
- b. The Investigator may question the Subject Member and the witnesses called by the Subject Member or his or her representative on their evidence.
- c. The Members of the Sub-Committee may question the Subject Member and the Witnesses called by the Subject Member or his or her representative on their evidence.

#### 6.11 Summing Up

- a. The Investigator will sum up his or her case.
- b. The Subject Member or his or her representative will sum up his or her case.
- c. In summing up the Investigator and the Subject Member or his or her representative should express a view on any conflict of evidence and explain why, in their view, the evidence discloses or does not disclose a failure to comply with the Code of Conduct. No new evidence may normally be introduced at this stage.

#### 6.12 Views of the Independent Person

- a. The Chairman will invite the Independent Person, if present, to express a view on the evidence and on whether it discloses a failure to comply with the Code of Conduct.
- b. If the Independent Person is not present, the chairman will read out the Independent Person's written representations.

#### 6.13 Deliberations of the Sub-Committee

- a. If the press and public are present, the Sub-Committee will decide whether to resolve to exclude them from the deliberations. They will normally do so, because otherwise they would disclose their views on the individuals who have participated and their evidence, and the balance of the public interest favours free discussion on these matters. They may clear the room or retire to another room. They may be accompanied by the Monitoring Officer (provided that he or she has not been involved in the hearing in any other capacity) or the legal advisor, who's role should be limited to the provision of legal advice.

#### 6.14 The Decision

- a. The Sub-Committee will reconvene the hearing and the Chairman will announce whether or not, on the facts found, the Sub-Committee considers that there has been a failure to comply with the Code of Conduct.
- b. If the Sub-Committee has found that there is a failure to comply with the Code of Conduct, the Chairman will invite the Investigator, the Subject Member and the Independent Person to make representations on the seriousness of the failure, whether or not any sanctions should be applied and, if so, what form they should take.
- c. The Sub-Committee may also invite the Monitoring Officer to comment on these matters if he or she has not been involved in the hearing in any other capacity.
- d. The Sub-Committee may make recommendations as to any other matter arising to the Council, a Committee or Sub-Committee, the Chief Executive or the appropriate officer.

#### 6.15 Deliberations as to Sanction

- a. the Sub-Committee will then consider whether to impose any sanction and, if so, in what form.

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS & AUDIT COMMITTEE

Agenda Item No.

meeting date: WEDNESDAY, 27 NOVEMBER 2019  
title: REVISITING MEMBER/OFFICER PROTOCOL  
submitted by: MARSHAL SCOTT – CHIEF EXECUTIVE  
principal author: DIANE RICE – HEAD OF LEGAL AND DEMOCRATIC SERVICES

## 1 PURPOSE

1.1 To inform Members about the Member/Officer Protocol and to consider whether or not it should be reviewed.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – } The Protocol is a public document which provides
- Corporate Priorities – } the framework within which Members and officers
- Other Considerations – } should operate.

## 2 BACKGROUND

2.1 The Council has a Member/Officer Protocol. A copy of the Protocol is attached as Appendix 1; it was last reviewed in May 2014.

2.2 In November 2017 the Council was the subject of a Peer Challenge Review, one of the recommendations of the Review was that the Council should re-visit its Member/Officer Protocol. No details about the issues that had been identified were provided.

2.3 The Protocol was presented as a standing item to each Committee to remind Members and officers of the guidance contained within the Protocol about the respective roles of Members and officers, and how the relationship between Members and officers should be managed.

2.4 It was also an opportunity to make suggestions to the Accounts and Audit Committee on how the Protocol could be strengthened and improved.

## 3 ISSUES

3.1 Committees made the following comments:

Community Services	No changes suggested
Planning & Development	No changes suggested
Personnel	No changes suggested
Health & Housing	Lack of gender-neutral language and respective accountability of Elected Members and staff. Review every 2 years with the first one being after the Borough Elections in May 2019. Include in training/induction for new Members.
Licensing	No changes suggested
Economic Development	Review after elections in May 2019
Policy & Finance	Review after elections in May 2019

3.2 It can be seen from the table at 3.1 that Members decided that if the Protocol was to be reviewed the review should be carried out after the Election of the new Council in May 2019.

3.3 Members may consider that no action is required, or that Members should have training about the Protocol, or that the Protocol should be reviewed, in which case the Working Group formed to review the Council's governance arrangements could also carry out a review of the Protocol.

#### 4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – N/A.
- Technical, Environmental and Legal – N/A.
- Political – N/A.
- Reputation – N/A.
- Equality & Diversity – N/A.

#### 5 **RECOMMENDED THAT COMMITTEE**

5.1 Note the terms of the Council's Protocol for Member/Officer Relations.

5.2 Note the comments at 3.1 made by the various Committees.

5.3 Decide whether to review the Protocol.

4.4 If the Protocol is to be reviewed ask that the Working Group appointed to review the Council's governance arrangements (Member Conduct) also carry out a review of the Member/Officer Protocol.

DIANE RICE  
HEAD OF LEGAL AND DEMOCRATIC SERVICES

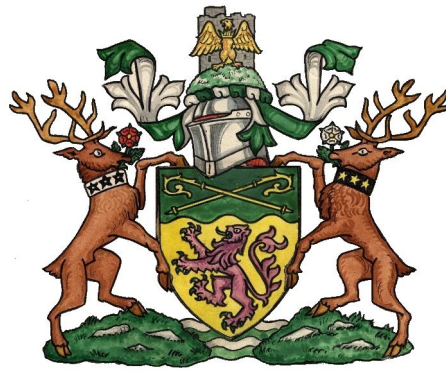
MARSHAL SCOTT  
CHIEF EXECUTIVE

#### BACKGROUND PAPERS

(If any)

For further information please ask for Diane Rice, extension 414418.

REF: DER/CMS/A&A /271119



**RIBBLE VALLEY  
BOROUGH COUNCIL**

**A Protocol for  
Member/Officer  
Relations**

**May 2014**



## **RIBBLE VALLEY BOROUGH COUNCIL**

### **MEMBER/OFFICER PROTOCOL**

#### **1. INTRODUCTION**

- 1.1 Ribble Valley Borough Council recognises that the relationship between its members and its officers is of vital importance in its work on behalf of the people of the Borough. The purpose of this Protocol is to guide both members and officers of the Council in their relationships with each other. It sets out and stresses the need for mutual respect between councillors and officers, based on an understanding of their respective roles and on the need to maintain the highest standard of personal and professional conduct at all times.
- 1.2 Given the variety and complexity of Member/Officer relations, the Protocol does not seek to be prescriptive or comprehensive. The intention is simply to offer guidance on some of the issues which most commonly occur and which, in turn, may help and serve as a guide in dealing with other situations which might arise.
- 1.3 The Protocol is largely a statement of current practice and convention, but by collating and emphasising these principles it is hoped to promote greater clarity and certainty.
- 1.4 The Protocol forms part of the Council's constitution and as such is available for public inspection.

#### **2. PRINCIPLES UNDERLYING MEMBER-OFFICER RELATIONS**

- 2.1 Both members and officers are servants of the public, and they are indispensable to one another. However their responsibilities are distinct. Members are responsible to the electorate and serve only so long as their term of office lasts. Officers are responsible to the Council. Their job is to give advice to Members and the Council and to carry out the Council's work under the direction and control of the Council, its committees and sub-committees.
- 2.2 Mutual respect between Members and Officers is essential to good local government.

#### **3. ROLES OF MEMBERS**

- 3.1 All members have important roles under the Council's constitution and all are subject to the same ethical framework and code of conduct. These roles include:
- representing the views of their constituents;
  - acting together as the full Council; and
  - membership of committees, sub-committees and working groups.
- 3.2 The Council and its committees are responsible for setting policies, service and performance targets and ensuring that they are delivered. They are accountable to the electorate for the delivery of policies and services. It is important to note that the law only allows for decisions to be taken by the Council, a committee or sub-committee or by an Officer. The law does not allow for decisions to be taken by a committee Chairman or by an other single member.
- 3.3 Members are not normally expected to be involved in the implementation of policies or the day-to-day management of services, but can expect reports on progress.
- 3.4 It is appropriate, however, for Members to propose initiatives and ideas about how things can be done better. It is essential that existing ways of doing things are challenged and reviewed. This needs to be done in a professional and constructive environment. Where Members have initiatives and ideas they should discuss them with the Director concerned and a way forward agreed by the parties concerned. This will usually be through the appropriate committee.
- 3.5 The Code of Conduct for Members has a number of provisions which are relevant to the relationship between Members and Officers. These are as follows:-
- A member must treat others with respect [Para.3(1)].
  - A member must not do anything which compromises or which is likely to compromise the impartiality of those who work for, on behalf of, the authority [Para. 3(2)d].
  - A member must when reaching decisions have regard to any relevant advice provided to him by –
    - (a) the authority's chief finance officer acting in pursuance of his duties under section 114 of the Local Government Finance Act 1988 or an equivalent provision in any regulations made under section 6(6) of the Local Government and Housing Act 1989; and
    - (b) the authority's monitoring officer acting in pursuance of his duties under section 5(2) of the Local Government and Housing Act 1989 (Paragraph 6).

#### **4. ROLES OF OFFICERS**

- 4.1 Officers are responsible for advising the Council and its Committees on policy and its implementation. They have a duty to give impartial advice to all Members. All officers are employed by, and accountable to, the local authority as a whole.
- 4.2 Support from officers is needed for all the Council's functions and the roles of the full Council, policy committee and individual Members representing their communities.
- 4.3 Day to day managerial and operational decisions should remain the responsibility of the Chief Executive and other officers.

## **5. RELATIONSHIP BETWEEN MAYOR AND OFFICERS**

- 5.1 Officers will ensure that the Mayor is provided with all necessary secretarial and other support and that the dignity of the office of Mayor is respected at all times.

## **6. RELATIONSHIP BETWEEN LEADER AND OFFICERS**

- 6.1 It is of fundamental importance to the effective running of the Council that there is a good working relationship between the Leader of the Council and Officers, in particular the Chief Executive. The Leader and the Chief Executive between them have the prime responsibility for providing leadership not just to the Council but to the wider community.
- 6.2 The Chief Executive will keep the Leader and Shadow Leader regularly informed on matters affecting the Council and will arrange for the necessary support to be provided to the Leader and Shadow Leader to enable him or her to fulfil the role.
- 6.3 In the absence of the Leader or Shadow Leader the Chief Executive will provide the necessary information and support to the Deputy Leader or Shadow Deputy Leader or to any other member nominated by the Leader or Shadow Leader.

## **7. RELATIONSHIPS BETWEEN CHAIRMEN AND MEMBERS OF POLICY COMMITTEES AND OFFICERS**

- 7.1 It is clearly important that there should be a close working relationship between the Chairman of a committee and the relevant Director or Service Head. However such relationships should never be allowed to become so close, or appear to be so close, as to bring into question the Officer's ability to deal impartially with other Members and other party groups.
- 7.2 Whilst the Chairman may, if he or she so wishes, be consulted as part of the process of drawing up the agenda for a forthcoming meeting, it must be recognised that in some situations an Officer will be under a duty to submit a report on a particular matter. Similarly, an Officer will always be fully responsible for the contents of any report submitted in his or her name. Any issues arising between a Chairman and an Officer in this area should be referred to the Chief Executive for resolution. Where individual members wish

to place an item on an agenda they should notify the Chairman and the Chief Executive.

- 7.3 Finally, it must be remembered that officers within a service are accountable to their Director and/or Service Head and that whilst Officers should always seek to assist a Chairman or any other Member, they must not, in so doing, go beyond the bounds of whatever authority they have been given by their Director or Service Head.

## **8. OFFICER RELATIONSHIPS WITH PARTY GROUPS**

- 8.1 There is now statutory recognition for party groups and it is common practice for such groups to give preliminary consideration to matters of Council business in advance of such matters being considered by the relevant Council decision making body. Officers may properly be called upon to support and contribute to such deliberations by party groups; however, this should always be with the consent of the appropriate Director. Such consent will only be refused in exceptional circumstances and after discussions between the party Leader and the Chief Executive.
- 8.2 The support provided by officers can take many forms, ranging from a briefing meeting with a Chairman or Spokesperson prior to a committee meeting to a presentation to a full party group meeting. Whilst in practice such officer support is likely to be in most demand from whichever party group is for the time being in control of the Council, such support is available to all party groups and also to independent members.
- 8.3 Certain points must, however, be clearly understood by all those participating in this type of process, Members and Officers alike. In particular:
- (a) Officer support in these circumstances must not extend beyond providing information and advice in relation to matters of Council business. Officers must not be involved in advising on matters of party business. The observance of this distinction will be assisted if officers are not expected to be present at meetings, or parts of meetings, when matters of party business are to be discussed.
  - (b) Where Officers provide information and advice to a party group meeting in relation to a matter of council business, this cannot act as a substitute for providing all necessary information and advice to the relevant Committee when the matter in question is considered.
- 8.4 Special care needs to be exercised whenever Officers are involved in providing information and advice to a party group meeting which includes persons who are not members of the Council. Such persons will not be bound by the Council's Code of Conduct (in particular, the provisions concerning the declaration of interests and confidentiality) and for this and other reasons Officers may not be able to provide the same level of information and advice as they would to a Members only meeting.

- 8.5 Officers must respect the confidentiality of any party group discussions at which they are present in the sense that they should not relay either directly or indirectly the content of any such discussion to another party group.
- 8.6 Any particular cases of difficulty or uncertainty in this area of Officer advice to party groups should be raised with the Chief Executive or in his absence, the Monitoring Officer who will discuss them with the relevant group leader.

## **9. MEMBERS IN THEIR WARD ROLES AND OFFICERS**

- 9.1 Officers will provide support to Members in their role as ward councillors. However the only basis on which the Council can lawfully provide support services (e.g. stationery, typing, printing, photocopying, transport etc) to Members is to assist them in discharging their role as Members of the Council. Such support services must therefore only be used on Council business. They should never be used in connection with party political or campaigning activity or for private purposes.
- 9.2 Whenever a public meeting (with the exception of Committee meetings) is organised by the Council to consider a local issue, all the Members representing the ward or wards affected must, as a matter of course, be invited to attend the meeting. Similarly, whenever the Council undertakes any form of consultative exercise on a local issue, the ward members should be notified at the outset of the exercise.

## **10. MEMBERS' ACCESS TO INFORMATION AND TO COUNCIL DOCUMENTS**

- 10.1 Members are free to approach any Council department to provide them with such information, explanation and advice as they may reasonably need in order to assist them in discharging their role as Members of the Council. This can range from a request for general information about some aspect of a Service's activities to a request for specific information on behalf of a constituent. Such approaches should normally be directed to the Director or another Senior Officer of the department concerned.
- 10.2 As regards the legal rights of Members to inspect Council documents, these are covered partly by statute and partly by the common law.
- 10.3 Members have a statutory right to inspect any Council document which contains material relating to any business which is to be transacted at a Council, committee or sub-committee meeting. This right applies irrespective of whether the member is a member of the committee or sub-committee concerned and extends not only to reports which are to be submitted to the meeting, but also to any relevant background papers. This right does not however apply to documents relating to certain items which may appear on the 'exempt' agenda for meetings. The items in question are those which contain exempt information.

- 10.4 The common law right of Members is much broader and is based on the principle that any member has a prima facie right to inspect Council documents so far as his/her access to the documents is reasonably necessary to enable the Member properly to perform his/her duties as a Member of the Council. This principle is commonly referred to as the “need to know” principle.
- 10.5 The exercise of this common law right depends therefore upon the Member’s ability to demonstrate that he/she has the necessary “need to know”. In this respect a Member has no right to “a roving commission” to go and examine documents of the Council. Mere curiosity is not sufficient. The crucial question is the determination of the “need to know”. This question must initially be determined by the particular Director whose department holds the document in question (with advice from the Head of Legal and Democratic Services). In the event of dispute, the question falls to be determined by the relevant Committee i.e. the Committee in connection with whose functions the document is held.
- 10.6 In some circumstances (e.g. a Committee Member wishing to inspect documents relating to the functions of that Committee) a Member’s “need to know” will normally be presumed. In other circumstances (e.g. a Member wishing to inspect documents which contain personal information about third parties) a Member will normally be expected to justify the request in specific terms.
- 10.7 Whilst the term “Council document” is very broad and includes for example, any document produced with Council resources, it is accepted by convention that a member of one party group will not have a “need to know” and therefore a right to inspect, a document which forms part of the internal workings of another party group.
- 10.8 Further and more detailed advice regarding Members’ rights to inspect Council documents may be obtained from the Head of Legal and Democratic Services.
- 10.9 Finally, any Council information provided to a Member must only be used by the Member for the purpose for which it was provided i.e. in connection with the proper performance of the Member’s duties as a Member of the Council.

## **11. MEDIA RELATIONS**

- 11.1 Officers shall assist Members in explaining proposals and policies to journalists but not in promoting individual members or their political views. Exceptions are those described in the Code of Practice on Local Authority Publicity, principally when an individual Member is speaking for the Council as a whole or for a committee which they chair.

## **12. CORRESPONDENCE**

- 12.1 Correspondence between an individual Member and an Officer should not normally be copied (by the Officer) to any other Member. Where exceptionally it is necessary to copy the correspondence to another Member, this should be made clear to the original Member.

12.2 Official letters on behalf of the Council should normally be sent out over the name of the appropriate Officer, rather than over the name of a Member. It may be appropriate in certain circumstances (e.g. representations to a Government Minister) for a letter to appear over the name of a Member, but this should be the exception rather than the norm. Letters which for example, create obligations or give instructions on behalf of the Council should never be sent out over the name of a Member.

### **13. REVIEW OF PROTOCOL**

13.1 This protocol is intended to provide Members and Officers with guidelines to determine their roles and relations with each other.

13.2 It is intended to be a 'live' document and will be reviewed from time to time to reflect changing circumstances.

13.3 Members or Officers with queries about the Protocol should contact the Head of Legal and Democratic Services, who is the Council's Monitoring Officer.

## RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 8

meeting date: 27 NOVEMBER 2019  
 title: INTERNAL AUDIT PROGRESS REPORT 2019/20  
 submitted by: DIRECTOR OF RESOURCES  
 principal author: MICK AINSCOW

### 1 PURPOSE

1.1 To report to Committee internal audit work progress to date for 2019/20.

1.2 Relevance to the Council's ambitions and priorities:

- Corporate priorities – the Council seeks to maintain critical financial management and controls, and provide efficient and effective services.
- Other considerations – the Council has a statutory duty to maintain an adequate and effective system of internal audit.

### 2 BACKGROUND

2.1 Internal audit ensure that sound internal controls are inherent in all the Council's systems. All services are identified into auditable areas and then subjected to a risk assessment process looking at factors such as financial value and audit experience. A risk score is then calculated for each area.

2.2 An operational audit plan is then produced to prioritise resources allocation based on the risk score, with all high-risk areas being covered annually.

2.3 The full internal audit plan for 2019/20 is attached as Annex 1 alongside progress to date. In summary resources for the year have been allocated as follows:

Audit Area	2019/20 Planned Days	Actual Days to 15 November 2019
Fundamental (Main) Systems	230	92
Other Systems	74	30
Probity and Regularity	232	70
On-going checks	12	7
Risk Management, Performance Indicators	40	15
Non-Audit Duties (Insurance)	35	20
College/Training	30	4
Contingencies/unplanned work	20	5
Vacant Posts		156
Available Audit Days to 31 March 2020		274
	<b>673</b>	<b>673</b>






2.4 The position with regards to audit work carried out as at the 15 November 2019 is included within Annex 1 and shows completed audits, audits in progress and continuous activity.

2.5 During the year we aim to review all of the Council's main fundamental systems. Reviews have so far been completed in relation to the Creditors and Cash Receipting Systems. Testing is well underway on both the Payroll and Housing Benefits systems.






### 3 ISSUES


- 3.1 During the first seven months of this year time has been spent carrying out audits on Fees and Charges, Car Parking, Land Charges, VIC/Platform Gallery, Health and Safety, Procurement, Healthy Lifestyles/Up and Active and Ribblesdale Pool.
- 3.2 In addition to our systems work we will continue to carry out a series of on-going checks to prevent/detect fraud and corruption.
- 3.3 We use an assurance system for all audits carried out. Each completed audit report contains a conclusion which gives a level of assurance opinion as follows:

Level 1	Full		The Council can place full reliance on the levels of control in operation
Level 2	Substantial		The Council can place substantial reliance on the levels of control in operation
Level 3	Reasonable		Generally sound systems of control. Some minor weaknesses in control which need to be addressed
Level 4	Limited		Only limited reliance can be placed on the arrangements/ controls in operation. Significant control issues need to be resolved.
Level 5	Minimal		System of control is weak, exposing the operation to the risk of significant error or unauthorised activity

### 4 REPORTS CARRIED OUT AND ASSURANCE OPINIONS

- 4.1 This report covers audit work and reports issued since the last report to Committee on 24 July 2019. The table below sets out the assurance opinions issued from these audits:

Date of Report	Assurance Opinion	Report Details
29.07.19	Full 	Asset Management – looking at purchase and disposal of assets, accurate recording in asset register, assets properly insured. No recommendations arising.
15.08.19	Full 	Creditors Systems and Processes – levels of control were effective and reflected a good standard of operation. No recommendations arising.
25.10.19	Full 	Land Charges – controls in place were operating effectively. No recommendations arising.

Date of Report	Assurance Opinion	Report Details
25.10.19	Full 	Ribblesdale Pool – all areas of operation at the pool were examined with no issues and no recommendations arising.

## 5 CURRENT STAFFING POSITION

5.1 At the end of August we successfully recruited for both the Auditor and Audit Assistant posts, meaning the team is now back to full strength. The vacant posts have obviously impacted on the 2019/20 Audit Plan coverage but we will strive to complete as much of the plan as possible by 31 March 2020.

## 6 UPDATE ON RED RISKS

6.1 There are currently no red risks to report.

## 7 CONCLUSION

7.1 Progress to date with the 2019/20 audit plan is satisfactory, given the vacant posts within the team previously referred to.

PRINCIPAL AUDITOR

DIRECTOR OF RESOURCES

AA18-19/MA/AC  
15 November 2019

## Annex 1

2019/20 Planned Days	Audit	Actual days to 15/11/19	Status as at 15/11/19
<i>Fundamental (Main) Systems</i>			
25	Main Accounting	0	Not started
20	Creditors	20	✓
20	Sundry Debtors	0	Not started
30	Payroll and HR	19	On going
40	Council Tax	0	Not started
40	Housing Benefits/CT Support	38	At draft report stage
40	NNDR/Business Rates Pooling	0	Not started
15	Cash Receipting	15	✓
<b>230</b>		<b>92</b>	
<i>Other Systems Work</i>			
15	VAT	6	Testing underway
12	Treasury Management	0	Not started
15	Procurement	12	Testing complete
20	Business Continuity	0	Not started
12	Asset Management	12	✓
<b>74</b>		<b>30</b>	
<i>Probity and Regularity</i>			
15	Recruitment/Safeguarding Arrangements	0	Not started
15	Insurance	0	Not started
5	Land Charges	5	✓
10	Fees and Charges/Cash Collection Procedures	10	✓
12	Health and Safety	12	✓
10	Car Parking	10	✓
5	VIC/Platform Gallery	5	✓
12	Trade and Domestic Refuse Collection	4	Ongoing
15	Externally contracted Provision of RVBC Services	10	Ongoing
10	Environmental Health	0	Not started
12	ICT Audit	0	Not started
5	Healthy Lifestyles/Up and Active	5	✓
5	Ribblesdale Pool	5	✓
3	Museum/Café	0	Not started
12	Partnership Arrangements	0	Not started
12	Grants received	0	Not started
12	Grants paid	0	Not started
12	Data Protection/GDPR	0	Not started
15	Section 106 Agreements/Planning Enforcement	0	Not started
10	Building Control	0	Not started
5	Licences	4	Ongoing
5	Land and Property Leases	0	Not started
5	Outdoor Recreation	0	Not started

2019/20 Planned Days	Audit	Actual days to 15/11/19	Status as at 15/11/19
10	Planning Applications	0	Not started
<b>232</b>		<b>70</b>	
<i>Continuous Activity/Ongoing Checks</i>			
12	Income Monitoring	7	∞
20	Contingencies/unplanned work	5	Insurance/Licence Check and Car Park Income Investigations
15	Risk Management	10	∞
20	Corporate Governance	0	∞
5	Performance Indicators	5	∞
<b>40</b>		<b>15</b>	
35	Insurance	20	∞
30	Training	4	∞
	Vacant post	156	
	Available audit days to 31/3/2020	274	
<b>673</b>		<b>673</b>	

**Key:**

∞ Continuous Activity

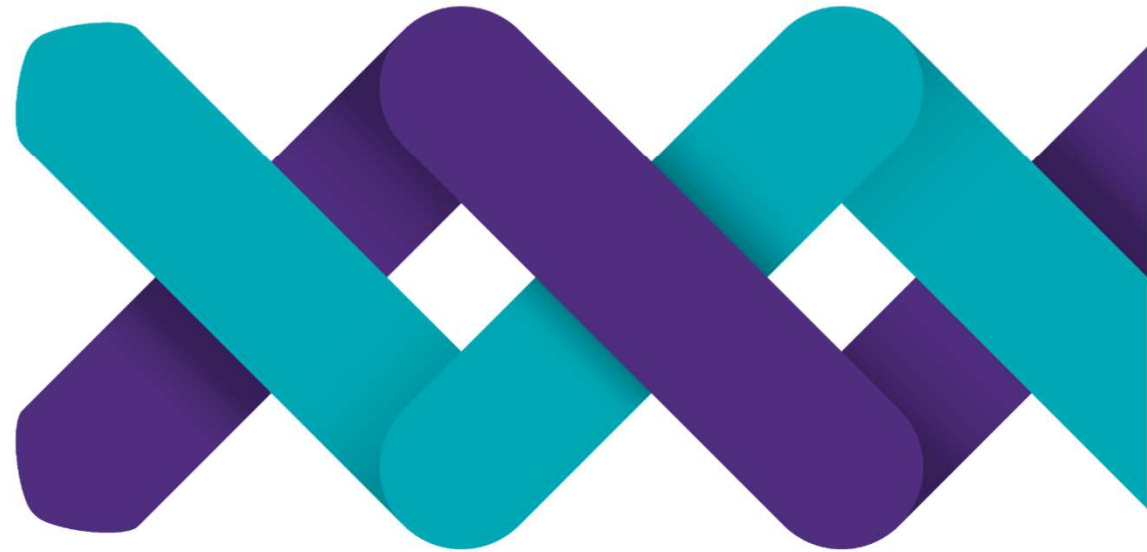
✓ Completed

Not started No work undertaken in the current year on these audits

# Audit Progress Report and Sector Update

Ribble Valley Borough Council

18 November 2019



# Contents

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# Introduction



**Mark Heap**

**Engagement Lead**

T 0161 234 6375  
M 07880 456 204  
E mark.r.heap@uk.gt.com



**Sophia Iqbal**

**Engagement Manager**

T 0161 234 6372  
M 07342060309  
E sophia.s.iqbal@uk.gt.com

This paper provides the Governance 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 Governance 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](http://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 18 November 2019

## Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019.

We will begin our planning for the 2019/20 audit in December and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We plan to begin our interim audit in February 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

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 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; "of resources". the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use

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 will be 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 the statutory accounts publication date of 31 July 2020.



# Progress at 18 November 2019

## 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 is in progress and will be completed by the 30 November deadline. We will report our findings to the Governance Committee in January 2020.

### Meetings

We meet regularly with the Chief Executive and Finance Officers as part of our liaison meetings. We continue to be in discussion 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 and publications to support the Council. Our annual workshop for your finance team will take place early in 2020 and invites have now been sent.

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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Audit Findings Report</b> The Audit Findings Report was reported to the July Governance Committee.	July 2019	Complete
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2019	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	January 2020	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Reports.	March 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Governance Committee.	July 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2020	Not yet due

# Sector Update

Councils are tackling a continuing drive 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 NHS 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 Governance 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:

Public Sector

Local  
government

# CIPFA – CFO confidence survey

## In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



## Financial confidence



### Challenge question:

How confident is your Authority in relation to its financial position?  
Has this changed from previous years?

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



# 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 is consulting on potential changes to the Code in two stages:

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

**This stage of the consultation is now closed.** 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 state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform 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 \(pdf – 256KB\)](#)

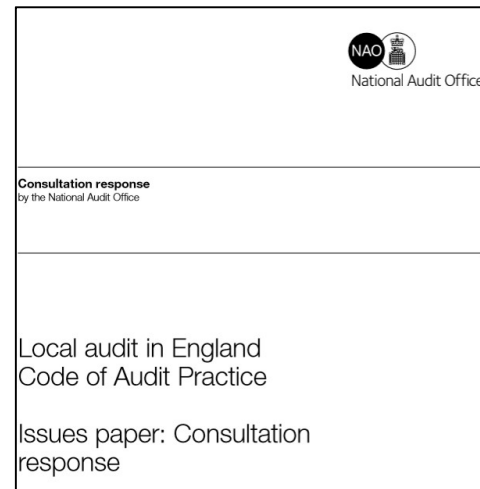
**Stage 2** of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- 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 consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



# Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



## Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



**Challenge question:**

If your Authority is looking at commercial activity, have you considered the LGA report?

# Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes “Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities’ commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

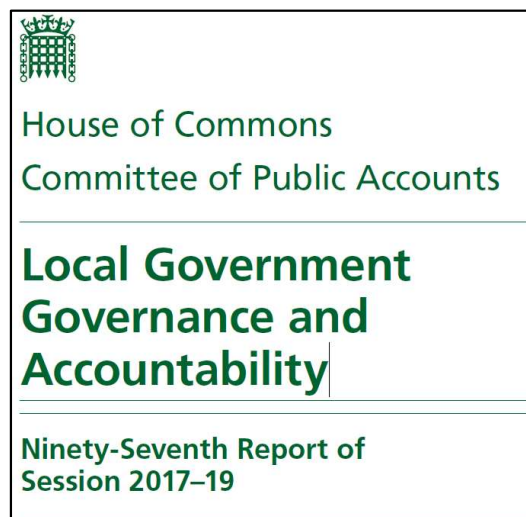
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental.”

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>









Our ref:  
Your ref:

Jane Pearson  
Chief Financial Officer  
Ribble Valley Borough Council  
Council Offices  
CLITHEROE

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**Grant Thornton UK LLP**  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB  
T +44 (0)161 953 6900  
F +44 (0)161 953 6901

10 September 2019

Dear Jane

**Ribble Valley Borough Council: Audit of Accounts 2018/19**

Following our meeting on 6 September I write to confirm our total fees for the audit of the Council's 2018/19 annual accounts.

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £30,956 assumed that the scope of the audit would not change significantly. However, there are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table at the end of this letter, along with the associated additional fees. The resultant final fee figure in relation to the 2018/19 audit of the Council's accounts is £35,456. The audit fee for 2017/18 was £40,202.

The additional fees set out in the table are subject to PSAA approval.

If you would like to discuss these matters please do not hesitate to contact me.

I would be grateful if you could bring this matter to the attention of those charged with governance.

Yours sincerely

Mark Heap  
Director

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
<b>Total</b>		£4,500



# RIBBLE VALLEY BOROUGH COUNCIL

## REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 11

meeting date: 27 NOVEMBER 2019  
title: REVIEW OF LOCAL AUTHORITY FINANCIAL REPORTING AND EXTERNAL  
AUDIT – CALL FOR VIEWS  
submitted by: DIRECTOR OF RESOURCES  
principal author: JANE PEARSON

### 1 PURPOSE

- 1.1 To inform members of the call for views in order to review the effectiveness of audit in local authorities and assess the transparency of financial reporting.
- 1.2 Relevance to the Council's ambitions and priorities:
  - The council aims to be a well-managed council.

### 2 BACKGROUND

- 2.1 The Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) has invited Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. The Review will not look at the broader issues of local authority finances and sustainability.
- 2.2 The Review document is attached at Annex 1.

### 3 REVIEW OBJECTIVES

- 3.1 The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:
  - Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment
  - Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
  - Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
  - To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

### 3.2 SCOPE

- 3.3 The review's scope is taken to include the objectives and context included in these terms of reference. In practice, this means the review is likely to focus on the following questions;
  - Have the financial savings from local audit reforms been realised?

- Is there a more accessible audit market and has there been an increase in audit providers?
  - Have audit standards been maintained or improved, and not been compromised?
  - Is there an 'expectation gap' in what external audit provides? What is the nature of the gap and how can it be filled?
  - Are auditors properly responding to questions or objections by local taxpayers?
  - Are auditors using their reporting powers in an appropriate way?
  - Are audit recommendations effective in helping local authorities to improve their financial management?
  - Are councils responding to auditor recommendations in an appropriate manner?
  - Whether local authority accounts report financial performance including use of resources against budget in a manner that is transparent and comprehensible to council tax payers and the general public?
  - Does the financial information provided in local authority accounts facilitate scrutiny by local taxpayers and by the local press?
- 3.4 The financial reporting and audit framework for Clinical Commissioning Groups, NHS Trusts and Foundation Trust and special trustees for hospitals is outside the scope of this Review. This is because these bodies have significantly different statutory bases and governance frameworks to other bodies covered by the Act
- 3.5 The closing date for responses has been extended from 22 November to 20 December 2019.
- 4 CONCLUSION
- 4.1 The Review welcomes views from any respondents with an interest in local authority audit and financial reporting.
- 4.2 Members are asked to forward any comments in order to form a response on behalf of this Council.

DIRECTOR OF RESOURCES

AA19-19/JP/AC  
18 November 2019

For further information please ask for Jane Pearson

# Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

## **Call for Views**

**Launch Date: 17 September 2019**

**Respond By: 20 December 2019**

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## Foreword

I am pleased to have been asked to undertake this review of the effectiveness of audit in local authorities together with an assessment of the transparency of financial reporting delivered to users of annual reports and accounts.

This call for evidence is a key part of the review in determining whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. I will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils.

I will talk to practitioners who work in this sector alongside the audit community and it would be beneficial to the review for this call for evidence to include as much factual analysis and hard data as is possible to illustrate the outcomes of current audit and financial reporting arrangements.

All information supplied to the Review will be considered carefully before formulating the final report for submission to the Secretary of State. Your contributions will be much valued and thank you for taking the time to participate in this exercise.

Tony Redmond

A handwritten signature in black ink that reads "Tony Redmond". The signature is written in a cursive style and is positioned below the typed name.

# Review Objectives

1. The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework in order to determine:
  - Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
  - Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
  - Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
  - To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

# Executive Summary

## Introduction

1. The Review is calling for views and information on the quality and effectiveness of the audit of local authorities in England. The definition of local authority comprises councils, including parish councils, Police and Crime Commissioners, Fire and Rescue Authorities, Independent Drainage Boards and Parks Authorities. It does not include Clinical Commissioning Groups or NHS Trusts. The Review would like your views, supported by evidence where possible, on the extent to which local authority accounts and the local authority audit process allows users of those accounts to hold local authorities to account for their use of resources. The Review would also like your views on how local authority accounts and audit process might be developed to better meet users' needs and serve the interests of other stakeholders and the wider public interest.
2. In providing responses, consideration should be given to both the accounts production and audit *processes*, to the accounts and audit *product* and to the *governance framework* for local authority audit. The Review is mindful that whilst all these elements are linked, there are distinct issues of quality and effectiveness. These are explored in the main body of this document.
3. **By audit, the Review means the external audit of the statutory accounts and the related work that supports the opinions provided in the external audit report published with a set of financial statements.** It does not include internal audit work or other forms of assurance, other than where these interact with the external audit process. These interactions are discussed in the technical Call for Views.
4. **By financial reporting, the Review means the statutory accounts, produced after each year end, that are subject to external audit.** It does not include the financial statistics that all local authorities are required to prepare for central government or any other financial reports or data that a local authority uses as part of its financial planning and budget monitoring processes.
5. Views are particularly sought on how the accounts and audit of local authorities could be improved to provide greater assurance to locally elected members along with local taxpayers and service users.
6. This call for evidence forms two parts, which respondents can complete as they see fit. These are:
  - a. **Strategic Call for Views** focussing on what the users of the accounts expect from the local authority accounts production and audit process.
  - b. **Technical Call for Views** which, in addition to the matters covered in the Strategic Call for Evidence, asks for views on the detailed statutory and professional frameworks underpinning the audit and financial reporting framework.

## Relevance to other areas of reform

7. This Review is primarily interested in the local authority financial reporting and audit product, along with the governance and regulatory framework for the audits of local authorities. Other areas that the Government is looking at include competition in the audit market for FTSE250 companies, the quality of Companies Act audits and the role of the regulator for those auditing listed companies. These areas are being addressed through respectively, the CMA Audit Markets Study<sup>1</sup>, the independent review of the Financial Reporting Council<sup>2</sup> and Sir Donald Brydon's review of audit quality<sup>3</sup>.
8. Nevertheless, this Review recognises that the findings from these separate areas of reform and enquiry have considerable relevance to the quality of the local authority audit and financial reporting processes and product along with the governance framework for local authority audit. In particular the independent review of the FRC has made specific recommendations to address issues with the governance framework for local authority audit. This Call for Views specifically invites input on some of the matters that these Reviews and investigations have highlighted.

## Scope of this Call for Views

### Part 1: Strategic Call for Views

9. Chapter 1 (*Definitions of audit and its users*) provides an overview of local authority audit in the local government sector and what it is supposed to deliver. It considers developments over time that have shaped the local authority audit processes and product and explores potential users of the accounts.
10. Chapter 2 (*The expectation gap*) compares the requirements of local authority audit, including the opinion on the systems in place for economy, effectiveness and efficiency of service delivery in statute and in international standards with what is currently expected of audit by elected representatives and other stakeholders.

### Part 2: Technical Call for Views

11. Chapter 3 (*Audit and wider assurance*) looks at the role of audit within the wider context of the assurance that local authorities are expected to provide to elected representatives, central government and other stakeholders regarding the use of resources and key risks. It seeks views on whether external auditors should make greater use of the work of internal auditors and whether there should be a role for auditors in assessing other statutory reports that local authorities are required to produce.
12. Chapter 4 (*The governance framework*) looks at the governance framework for local authority audit. It explores whether the fragmented nature of the framework is detrimental to the quality of the audit process and product and whether the current regulatory framework drives particular and possibly sub-optimal behaviours by auditors. It asks for views on the Recommendation made by the Independent Review of the Financial Reporting Council that the regulator for local authority audit should ideally be a separate body that has (or could develop) a deeper expertise in the local audit world.

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<sup>1</sup> <https://www.gov.uk/cma-cases/statutory-audit-market-study>

<sup>2</sup> [Independent Review of the FRC](#)

<sup>3</sup> [Brydon Review - Audit](#)

13. Chapter 5 (*Audit product and quality*) looks at the local authority specific elements of audit quality. It asks for views on whether the auditors of local authorities have sufficient understanding of the business to focus on the right risks for both the financial audit and value for money opinions. It questions whether the definition of the 'going concern' assumption used for private sector audits is appropriate for local authorities.
14. Chapter 6 (*Auditor Reporting*) looks at statutory and non-statutory audit reports. For local authorities this includes Public Interest Reports, Statutory Recommendations and Advisory Notices, as well as the audit certificate and audit completion report that are common to the public and private sector. It explores whether auditor reporting is timely and whether the structure and format of reports is conducive to communicating useful information to stakeholders.
15. Chapter 7 (*How local authorities respond to audit findings*) looks at the steps that local authorities take to respond to audit qualifications, statutory recommendations and other audit findings. It explores whether local authorities are taking action to address audit findings and whether changes to the governance framework would enable elected members to hold the executive to account for doing so in a more effective manner.
16. Chapter 8 (*The financial reporting framework*) looks at the specific characteristics of the local authority financial reporting framework. It explores the impact that the difference between the basis on which the balanced budget is calculated and the basis on which financial results are reported has on the transparency of local authority financial reporting; on whether the statutory adjustments to get from one basis to the other drives peculiar and possibly sub-optimal behaviours by local authorities. It asks what statutory and non-statutory measures could be taken to improve the transparency and usefulness of local authority accounts.
17. Chapter 9 (*Other issues*) looks briefly at a number of other matters related to the quality and effectiveness of local authority audit. These include group accounts, outsourcing, and inspection and objection powers. It also covers matters relevant to smaller authorities.
18. A list of questions is provided at the end of each chapter. It is not necessary for respondents to answer every question, should they wish to focus on a specific area of interest to them. Equally respondents are free to comment on any other issues arising from this document and provide supplementary evidence if they wish to. Supplementary information submitted that is not directly relevant to any of the questions will be considered, provided that it is relevant.
19. This call for views closes on 20 December at 5pm. Responses should be submitted to [Redmond.Review@communities.gov.uk](mailto:Redmond.Review@communities.gov.uk)

# Part 1: Strategic Call for Views

# Chapter 1: Definitions of audit and users of the accounts

## Audit

1. The audit framework for the annual financial statements produced by local authorities is based on and to a large extent is consistent with the framework for the audit of financial statements produced by listed companies.
2. The audit of financial statements in the UK has been shaped by developments in company law and in the auditing standards set in the UK by the accountancy professional bodies, the Auditing Practices Board established in 1991 and (since 2004) the Financial Reporting Council (“FRC”). The standards that UK auditors are required to follow are adapted from those set by the International Auditing and Assurance Standards Board and comprise a mixture of guiding principles and specific processes and procedures that an audit must include.
3. The interpretation of this statutory and standards-based regime has also been influenced by a number of landmark legal cases over time. Company law does not explicitly define the meaning or purpose of audit, nor for whose benefit it is undertaken. The absence of clear statutory objectives has left scope for the courts to play a significant role in determining auditors’ responsibility, the manner in which they are discharged and to who they owe a duty of care. This is as true for local authority audit as it is for the audit of companies.
4. Local authority audit differs from the audit of companies in two main ways:
  - a. There is an additional audit opinion. Commonly known as the **Value for Money opinion (“vfm opinion”)**, auditors are actually required to provide an **opinion on the adequacy of systems in place to support the economy, effectiveness and efficiency in its use of resources**. Whilst auditing standards provide a framework within which an audit of financial statements must be conducted, they do not apply to the audit work supporting the ‘vfm opinion’. Instead, the Statutory Code of Audit Practice (“the Audit Code”) produced by the National Audit Office (“NAO”) on behalf of the Comptroller and Auditor General, provides limited guidance on the work auditors need to undertake on these systems.
  - b. **The financial audit opinion will always report that all local authorities are a going concern**. Auditors are required to test and report on the ‘going concern assumption – i.e. whether an entity will continue to exist for the following twelve months. If an entity is not a going concern assets and liabilities are valued on a different basis and the auditor modifies their financial audit opinion. As local authorities have a continuing responsibility to deliver statutory services, irrespective of whether there is sufficient money to do so, the accounts will always meet the going concern test. This means that the assurance that an auditor gives on going concern is meaningless when assessing a local authority’s financial resilience.

## Users of the accounts

5. Defining the users of local authority accounts is difficult. Auditing standards define the users of the accounts for a private sector entity as: “– existing and potential investors, lenders and other creditors”<sup>4</sup>. Other stakeholders who will have an interest in private

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<sup>4</sup> International Accounting Standards Board *Conceptual Framework for Financial Reporting* – para. 1.5

sector accounts are suppliers, customers, regulators and ratings agencies. All of these stakeholders can be expected to have a reasonable level of financial literacy and familiarity with the format and content of financial statements and annual reports. In addition, they are largely interested in similar information.

6. This does not necessarily hold true in the local authority sector. Auditing standards suggest: “In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements.”<sup>5</sup> The Chartered Institute of Public Finance and Accountancy (“CIPFA”) currently defines the primary users of local authority financial statements as “service recipients and their representatives and resource providers and their representatives”.<sup>6</sup>
7. This definition in and of itself is open to considerable interpretation. Service recipients and their representatives is presumably intended to mean local residents and their locally elected representatives, but could also include Members of Parliament, the media, financial advisors, and lobby and special interest groups. Resource providers and their representatives is presumably intended to mean central Government but could also include tax payers (both Council Tax and non-Domestic Rates) and their representative groups and other funding organisations.
8. There also needs to be an acknowledgement that other user groups exist. These include but are not limited to existing and potential lenders, credit ratings agencies, trade unions, statisticians, analysts, academics and think tanks with an interest in local government. Local authorities are increasingly delivering core services through more complicated and innovative organisational structures, so it would be reasonable to expect the range of users of accounts to increase.
9. This policy poses a particular challenge in ensuring that audited financial information presented by local authorities is focussed on the needs of the key users of accounts. Different stakeholder groups will be interested in different information, have differing expectations of whether a particular transaction is material, will have differing expectations of the audit process and will have differing levels of financial literacy.
10. What is also different between local authority accounts and company accounts is the absence of an analyst community. In the private sector, market analysts review the annual accounts and other financial information published by listed companies and provide a summarised view of what this means for the financial health and future prospects of that company. No such community exists in the local authority sector, which means that users of accounts have less help in interpreting what the financial information means.

**Q1. Who, in your opinion, are the primary users of/main audience for local authority accounts?**

**Q2. Who are the other users of local authority accounts? Are any of these other users of accounts particularly important?**

**Q3. What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have**

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<sup>5</sup> <https://www.ifac.org/system/files/downloads/a018-2010-iaasb-handbook-isa-320.pdf> – para. A2

<sup>6</sup> CIPFA *Statutory Code of LA Accounting Practice 2019-20* – para. 2.1.2.6



**for the information presented in accounts and/or the information that should be subject to external audit?**

**Q4. Does the external audit process cover the right things given the interests of the primary users of the accounts/is the scope of the opinions wide enough?**

**Q5. Is the going concern opinion meaningful when assessing local authority resilience? If not, what should replace it?**

## Chapter 2: The Expectation Gap

1. The term 'expectation gap' has generally been used to characterise a perceived difference between what users of the financial statements and other stakeholders expect from an audit and what an audit is required to deliver under the statutory framework and appropriate professional standards.
2. In the local authority sector examples of audit expectations that are not matched (or not matched fully) by the corresponding statutory and regulatory framework include:
  - a. An expectation that the audit will provide an opinion on the value for money of service delivery;
  - b. An expectation that the audit will provide assurance over the effectiveness of service delivery;
  - c. An expectation that the audit will provide assurance over the financial resilience of the authority;
  - d. An expectation that the auditor will have actively sought out any evidence of fraud;
  - e. An expectation that the auditor will have confirmed that specific grant income has been spent solely on the purposes for which it was intended; and
  - f. An expectation that the audit opinion covers all of the financial and non-financial information included in the annual report and accounts.
3. The key decisions in relation to the future prospects of a local authority are taken by elected members and statutory officers (rather than by auditors). Responsibility for establishing an appropriate and effective system of control is split between three officers, each of whom have a specific area of responsibility set out in statute, as follows:
  - a. **Head of Paid Service** (typically the Chief Executive or Managing Director): overall responsibility for the management and co-ordination of employees of the authority to enable efficient and effective discharge of statutory responsibilities.
  - b. **Chief Finance Officer** (typically the Finance Director or Borough Treasurer): proper administration of financial affairs, including ensuring the authority has sufficient reserves to manage financial risks. The Chief Finance Officer also has personal responsibility for issuing a statutory warning notice to full council or equivalent if it looks like there is insufficient resource to meet future expenditure. This is known as a "Section 114 Notice".
  - c. **Monitoring Officer** (typically the Borough Solicitor or Head of Law and Democracy): maintaining the constitution and ensuring the lawfulness and fairness of decision making.
4. In some authorities, responsibility for service delivery is further diffused. In upper and single tier authorities, the **Director of Adult Services** and **Director of Childrens' Services** have responsibility for the efficiency and effectiveness of service delivery in their areas of responsibility. In Police and Crime Commissioners and Fire and Rescue Authorities, the elected representatives oversee service delivery which is the responsibility of the **Chief Constable** and **Chief Fire Officer** respectively.
5. Where a local authority suffers financial or service failure, this is the responsibility of elected representatives and statutory officers. An unmodified audit report and vfm opinion is not a guarantee that a local authority is in robust financial health or that it is delivering effective and efficient services. Nor does the scope of the vfm opinion

specifically require an auditor to form a view on the financial resilience of a local authority. However, an effective audit may help avert a failure through providing an early and public warning that highlights significant risks.

6. In addition, where senior external audit staff have an ongoing informal relationship with statutory officers and elected representatives that enables them to provide real-time constructive challenge, this may support local authorities in delivering more efficient and effective outcomes.
7. Auditors of local authorities have statutory powers that provide them with a number of mechanisms that allow them to sound an early warning. Some of these can be used outside the normal financial audit cycle. Details of these powers and their use is discussed in **Chapter 6**.
8. Auditors of local authorities also have a duty to investigate objections raised by electors. Electors have the right to inspect accounts and underlying records for a 30 day period that must include the first ten working days in June and if they have concerns to raise an objection with the auditor. The auditor is required to consider whether to investigate and formally respond to objections after due consideration of the significance of the subject matter vis a vis the time and resource required to investigate. This could give rise to a further expectation gap, where electors expect that an auditor will investigate any matter they choose to raise at any time.
9. Perceptions of audit coverage or lack of audit coverage of new activities that are growing in popularity in the sector, for example, commercial property purchases, joint arrangements and wholly owned commercial subsidiaries also contribute to the lack of clarity about what auditors do and what they should be doing.
10. Finally, there are a number of factors common to all local authority external audit engagements that could add to the expectation gap. Key amongst these are:
  - a. **Fraud** – external auditors are required to consider the risk of material fraud when conducting a financial audit but are not required or expected to develop procedures to identify all instances of fraud or irregularity.
  - b. **Performance information** – external audit does not give any assurance over performance information. If performance information is reported in the same document as the audited financial statements, the auditor is required to read that information to ensure that it is not inconsistent with the financial statements (if relevant) and what they know about the local authority, but not to do any additional work to test its accuracy or reasonableness.
  - c. **Future prospects** – an audit is backwards looking and an external auditor is not currently required to assess forward financial plans or strategies.
11. A variant on the expectation gap argument is that it is actually an audit quality gap, that auditors of local authorities have some or all of inadequate sector knowledge, inadequate skills, inadequate resources or inadequate systems to fulfil their statutory responsibilities. Audit quality is discussed in more detail in **Chapter 5**.
12. These various potential gaps can be categorised into three main areas:
  - a. **Knowledge gap** – do users of accounts understand what the statutory framework requires auditors of local authorities to do?

- b. **Evolution gap** - is there a difference between what users of accounts expect auditors to do and what they are responsible for doing?
- c. **Quality gap** – do external auditors do the things that they are supposed to do to with and appropriate degree of knowledge, skill and rigour?

**Q6. In your opinion, what should an external audit of a set of local authority financial statements cover?**

**Q7. In your opinion, what should the scope of the external auditor's value for money opinion be?**

**Q8. What is your view on the scope of an external audit engagement as described in Chapters 1 and 2 of this Cal for Views? If it is different from your expectations, does this have implications for the reliance you place on external audit work?**

**Q9. Should the external audit engagement be extended? If so, which additional areas/matters are most important for external auditors to look at? What would be the cost implications of extending the engagement to the areas/matters you consider to be most important be?**

## Part 2: Technical Call for Views

## Chapter 3: Audit and Wider Assurance

1. Assurance is commonly defined as a process leading to a statement which provides stakeholders with confidence that outcomes will be achieved.
2. Most taxpayers, residents and other stakeholders expect elected representatives and statutory officers to be truthful in their communications regarding service delivery outcomes and the financial resilience of their local authority. They are also likely to want assurance that funds have been spent appropriately and effectively to support delivery of statutory outcomes and local policy priorities. In the local government sector this seems to mean different things to different stakeholders.
3. The MHCLG Accounting Officer's System Statement for Local Government includes external audit as part of the governance framework but does not use the external audit process to gain assurance over its effectiveness. Instead it lists a wide range of financial and non-financial data that "is considered and analysed in the Department to provide indications of which local authorities or groups of authorities are at highest risk of financial distress, service failure or other inability to meet statutory duties."<sup>7</sup>
4. It is an interesting question whether such assurance should be delivered through a statutory audit or through some other assurance mechanism. This question is more complicated for local authorities than for other types of entities for a number of reasons.
5. Firstly, local authorities are required to produce a number of statutory reports that set out key financial strategies and plans, that must be approved by full council, but which do not form part of the annual report and accounts document. These include but are not limited to the Balanced Budget Report, the Chief Finance Officer's Report accompanying the budget (also known as a "Section 25 Report"), the Mid-Term Financial Strategy, the Capital Strategy, the Investments Strategy and the Minimum Revenue Provision Strategy. The balanced budget calculation is set by primary legislation. The content of many other statutory reports is set by legislation or through statutory codes.
6. Secondly, local authorities are required to provide a number of detailed statistical returns to central government covering both capital and revenue income and cost data, at least annually. There is a statutory code, the Service Reporting Code of Practice ("SeRCoP"), that sets out how to allocate costs between service areas in these returns. However, spend on service areas in accounts is no longer required to be presented on a SeRCoP basis.
7. Finally, all local authorities are required to make publicly available a wide range of financial information under the transparency code, including every item of expenditure of more than £500. It is unclear how or whether this information is quality assured or whether the transparency data should be reconciled to the information presented in the financial statements.
8. Many local authorities deliver a range of complex services, some of which are looked at by specialist inspectorates but most of which are not. Key amongst these are the DHSC and DfE inspectorates, respectively the Care Quality Commission and OFSTED, which monitor and inspect and therefore could be said to provide wider assurance over the

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<sup>7</sup> [MHCLG Accounting Officer System Statement](#) – Annex A

quality of adults and childrens' social care; and the police and fire inspectorate, HMICFRS, whose inspections cover service resilience in addition to the effectiveness of service delivery.

9. In addition, many authorities are delivering these services through increasingly complex business models. This means that those providing audit and wider assurance services need to have access to a range of specialist skills and experience beyond audit and accounting. They also need to have sufficient understanding of the wider regulatory framework.
10. The final piece of the assurance jigsaw is internal audit. The relationship between internal and external audit is discussed in **Chapter 5**.

**Q10. Should the scope of the vfm opinion be expanded to explicitly require assessment of the systems in place to support the preparation of some or all of the reports that statute requires to be presented to full Council? If you do, which reports should be within scope of the external audit vfm engagement? If not, should these be assessed through another form of external engagement? If you believe that the vfm opinion should be extended to cover these reports will there be implications for the timing of audit work or auditor reporting?**

**Q11. Should external auditors be required to engage with Inspectorates looking at aspects of a local authority's service delivery? If you believe that this engagement should happen, how frequent should such engagement be and what would be the end purpose of doing so?**

# Chapter 4: The Governance Framework for the Audit System

## Responsibilities following the abolition of the Audit Commission

1. Before it closed on 31 March 2015, the Audit Commission was responsible for appointing auditors for local government, NHS trusts, health housing and other local bodies in England. Approximately 70% of these audits were carried out by District Audit, the Commission's in-house audit practice, the rest being contracted out to private sector auditors.
2. A number of reasons were given for the abolition of the Audit Commission. It was perceived as being unaccountable to ministers and Parliament, as the both the regulator and largest provider of audit services to the sector, it was considered to have an inherent conflict of interest and there was a perception that the CPA/CAA regime had turned it into more of an inspectorate than a regulator or external audit provider.
3. The Local Audit and Accountability Act 2014 transferred the audit functions previously carried out by the Audit Commission to a range of successor bodies as follows:
  - a. Management of audit contracts – transferred to Public Sector Audit Appointments Ltd ("PSAA"), an independent company created by the Local Government Association. This company has also taken on statutory responsibility for bulk procurement of audit contracts, for all councils that have not opted-out. An equivalent body, Smaller Authorities Audit Appointments Ltd performs the same functions for parish councils, independent drainage boards and other smaller authorities.
  - b. Registration and professional conduct of auditors – transferred to the professional accountancy bodies. Currently all firms qualified to conduct local government audit are registered by the ICAEW.
  - c. Quality assurance for audit engagements – firm's internal procedures; which in turn are monitored and assessed by the Financial Reporting Council ("FRC").
  - d. Grant certification – the role of making arrangements for housing benefit subsidy calculations transferred to PSAA until the audit contracts ended. Other grant certification work was not transferred to a successor body.
  - e. Code of Audit Practice and supporting guidance – transferred to the Comptroller and Auditor General ("C&AG"), the Head of the National Audit Office ("NAO")
  - f. Provision of information about audit – the C&AG was given responsibility for the guide to the electorate's rights with regard to the audit of their local authority. PSAA was given responsibility for publishing summary reports on the results of audits and auditor compliance and audit quality. PSAA's responsibility for publishing the summary report lapsed in 2018-19.
  - g. Whistleblowing – external auditors became prescribed persons to which whistleblowing disclosures could be made. The C&AG's responsibility as a prescribed person for whistleblowing disclosures was extended to include disclosures from those working in local government.



## Current position

4. The new arrangements have been gradually introduced since 2015-16. 2018-19 is the first year for which all the arrangements have been in operation. However, the key characteristics of the framework, with the split of responsibilities between the C&AG, the FRC, audit firms and PSAA have remained constant since 2015-16.
5. The most visible aspect of the new regime, and one of the key objectives of the Local Audit and Accountability Act 2014, is the reduction in audit fees. PSAA's website states "scale audit fees and indicative certification fees for most audited bodies [for 2015/16] have been reduced by 25 per cent based on the fees applicable for 2014/15"<sup>8</sup>, and fee scales reduced by a further 23 percent<sup>9</sup> on the retendering of audit lots for the 2018-19 audit cycle.
6. A key characteristic of the governance framework set up to replace the Audit Commission is the fact that, other than deciding when to conduct a best value inspection, there is no role for MHCLG. This was a deliberate consequence of the policy intent when the Commission was abolished. Recently, MHCLG has set up a discussion forum, the Local Audit Delivery Board, that brings all parties with responsibility for the governance framework together. However, this Board has no statutory basis and does not have a clear remit.
7. Whilst some have argued that it is too early to assess the effectiveness of the current framework, others have raised concerns that the fragmented nature of responsibilities for assuring quality means that no-one has oversight of the state of audit in the sector, there has been a loss of sector specific knowledge and it is too easy for those with responsibility to claim that a particular area of concern is outside their remit. Most recently these concerns have been raised in Sir John Kingman's review of the FRC. The summary findings and recommendations are reproduced below.

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<sup>8</sup> <https://www.psa.co.uk/201516-work-programme-and-scales-of-fees/>

<sup>9</sup> <https://www.psa.co.uk/201819-work-programme-and-scales-of-fees/>

## Independent Review of the Financial Reporting Council: Executive summary of findings on local audit

There are important differences between local authority audit and private sector audit:

Auditors of local public bodies report not only on the financial statements, but also on arrangements for securing value for money, and financial sustainability;

Auditors of those bodies carry out their work on behalf of the public, yet in comparison to the lines of accountability in companies between the directors, audit committee and shareholders, there is substantially lower awareness and challenge of the auditors' work in the public sector;

The FRC's enforcement powers in relation to local audit are meaningfully different in comparison to its powers in relation to private sector statutory audit. The former are not within scope of the Audit Enforcement Procedure. Instead of the question as to whether an auditor has 'breached a relevant requirement', a far narrower test applies in relation to local audit – that there are reasonable grounds to suspect misconduct, and that the matter appears to raise 'important issues affecting the public interest'; and

Unless the local body is also a Public Interest Entity, there are no requirements regarding the rotation of auditors.

Historically, the AC also appointed auditors to a range of local bodies in England and Wales, as well as setting and overseeing relevant standards, and conducting UK-wide antifraud work. Since the AC's abolition in 2015, the new local audit framework enables bodies to procure and appoint their own auditors from an open and competitive market of qualified providers. However, 98% of relevant authorities have opted into a central procurement body. The Review has serious concern that those arrangements, in practice, are prioritising a reduction in cost of audit at the expense of audit quality.

These arrangements, if allowed to persist, run a very clear risk of allowing weak and limited audit disciplines to prevail in local government. This is particularly concerning given the vital role played historically by district auditors for instance, in detecting and seeking out corruption.

Particularly at a time when local authorities are under acute financial pressure, and some local authorities are engaging in risky speculative ventures, high-quality and robust scrutiny of local authorities' finances and financial management in the public interest is a critical part of local democracy. The Review is very concerned that the quality of this scrutiny is being pared back at the worst possible time.

### Recommendations

The Review recommends that the arrangements for local audit need to be fundamentally rethought. This should include robust assessment and scrutiny of the quality of local audit work, with individual reports shared with audit committees and published; a more appropriate threshold for enforcement action; and, bringing together in one place all the relevant responsibilities, so a single regulatory body can take an overview.

Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.

**Q12. Does the current procurement process for local authority audit drive the right balance between cost reduction, quality of work, volume of external audit hours and mix of staff undertaking audit engagements?**

**Q13. How should regulators ensure that audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and vfm audits, whilst ensuring the barriers to entry do not get too high?**

**Q14. What metrics should regulators use when assessing whether financial and vfm audits are delivered to an appropriate level of quality?**

**Q15. Do you agree with the Independent Review of the Financial Reporting Council's findings and recommendations; and why do you agree/not agree? If you agree with the recommendations do you think the 'single regulatory body' should be the "successor body to the FRC" or a sector specific entity? If you do not agree with the recommendations are there any other changes you would make to the regulatory framework for local authority audit?**

## Chapter 5: Audit Product and Quality

1. The Public Accounts Committee has raised significant concerns about the quality of local government audit coverage and quality, reporting: “There are a number of issues with external audit. Some council chief executives, finance directors and heads of internal audit raised concerns with the National Audit Office that the contribution of external audit to local governance has reduced recently. CIPFA told us that it shared this concern, which it linked to the change to reduction in audit fees. 25% of finance directors at single tier and county councils felt that their audit fees in 2017–18 were too low relative to the risk that their authorities face. Over half of finance directors at single tier and county councils (which have responsibility for social care services for vulnerable people) wanted some change to their external audit. The most common change, wanted by 26% of these finance directors, was more value for money work, particularly in relation to financial sustainability.”<sup>10</sup>
2. There are two key aspects of audit quality, which are not necessarily complementary. These are:
  - a. The quality of the auditor’s performance against whichever standards or principles have been agreed; and
  - b. The quality of the audit output in meeting the legitimate expectations of the users of the accounts.
3. This review is primarily interested in the second of these two aspects. However, this chapter along with **Chapter 6 – Auditor Reporting** includes coverage of the quality of the auditor’s performance. It is also important to note that the two aspects of audit quality are interlinked.

### Quality in local authority external audit

#### Binary nature of audit opinions

4. Under the current framework, auditors of local authorities issue two audit opinions: the financial audit opinion; and the vfm opinion. These two opinions are largely pass or fail tests.
5. Vfm audit opinions are discussed in **Chapter 6**. The financial audit opinion is either **clean** also known as **unmodified** or it is **modified** in one of three ways:
  - a. An **‘except for’** opinion – means the financial statements are true and fair except for the treatment or presentation of one or more specific items.
  - b. An **‘adverse’** opinion – means the financial statements are not true and fair.
  - c. A **‘disclaimer’** of the opinion – means that the auditor is unable to obtain enough evidence to assess whether the financial statements are true and fair.
6. Auditors can also present a clean opinion with an emphasis of matter, where they want to highlight an issue. However, local authority auditors have additional reporting options (see **Chapter 6**), which means there is no incentive to issue an emphasis of matter.

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<sup>10</sup> [PAC report - Local Government Governance and Accountability \(15 May 2019\)](#)

7. The pass or fail nature of audit opinions means that they are seen as a nuclear option. Auditors have to pass a number of internal professional and legal tests before issuing a modified opinion, which could make them very reluctant to do so.

## Financial Audit

8. Current work by audit regulators and inspectors is thought to focus on the first issue, of how well audits deliver on the standards. This poses a particular issue for public sector audit, where some financial reporting and auditing standards have to be adapted or interpreted to be relevant.
9. The FRC's reports on the performance of audit firms raise concerns about the lack of professional scepticism and challenge rather than failures of audit process. Whilst the FRC does not publish local government specific audit quality data, it has indicated in Audit Delivery Board meetings that the quality of those audits tends to be lower than private sector audits conducted by the same firms. There is also a widely expressed concern that the reduction in fees has led to a change in the mix of staff undertaking local authority audits – i.e. teams are less experienced and have less sector specific knowledge, which has a detrimental impact on quality.
10. The FRC has fewer powers when it identifies poor quality local authority audits than it does when it identifies poor quality Companies Act audits. Specifically, it does not have the same powers to serve enforcement orders or impose financial penalties on local authority auditors who fail to meet their statutory responsibilities. Although these powers have rarely been used, the fact that the threat of use exists for private sector audits but not for local authority audits could influence resourcing decisions made by Audit firms.
11. Some auditors have countered that the FRC's regulatory regime is actively detrimental to the quality of local authority audits. To get a clean bill of health from the FRC, auditors are forced to focus time and effort on areas that would be high risk in the private sector but are not for the public sector. If true, this could be a sector specific example of 'auditing to complete the audit file', rather than to reach the correct opinion.
12. Some auditors have countered that the FRC's regulatory regime is actively detrimental to the quality of local authority audits. To get a clean bill of health from the FRC, auditors are forced to focus time and effort on areas that would be high risk in the private sector but are not for the public sector. If true, this could be a sector specific example of 'auditing to complete the audit file', rather than to reach the correct opinion.
13. There is also a question about whether the way auditing standards define materiality drive quality outcomes in the local government sector. Auditing standards require external auditors to determine the quantum and nature of errors that would be material to users of the account. They are then required to determine "performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures."<sup>11</sup> The standard further suggests that for public sector entities, total or net expenditure is the most appropriate basis for setting materiality.
14. There is a question as to whether total or net expenditure is the most appropriate basis for setting materiality for all LAs. Materiality for LA Pension Fund audits is already set

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<sup>11</sup> [International Standard on Auditing 320 - Materiality](#) - para. 11

based on net liabilities. There is a question as to whether the same approach should be adopted for those LAs with a disproportionately large balance sheet relative to their net expenditure.

15. Auditors are allowed to set a lower performance materiality where balances are particularly sensitive but cannot set a higher performance materiality. This poses a particular problem for the audits of many smaller local authorities, where the balance sheet is disproportionately large relative to gross or net expenditure. To comply with auditing standards, the auditor is required to focus more time and audit effort on balance sheet items, even where these may be less risky or of less interest to users of the accounts. Whilst amending auditing standards is outside the scope of this Review, views on the extent to which this and other professional standards have a positive or negative effect on audit quality would be welcomed.
16. Finally there is a question about whether auditors have sufficient understanding of the business to be able to focus on the right areas. Understanding the business is a key part of any audit. Together with the assessment of balances against performance materiality it drives how much effort is focussed on any specific area. The local authority regulatory framework is different to that of other sectors, and the incentives and risks are different. As audit firms draw upon a wider pool of staff to undertake LA audits, there is a question of the extent to which their audit teams are able to maintain and demonstrate appropriate skills and knowledge to meet the legitimate expectations of users.
17. Another aspect of understanding of the business is consistency of accounting judgements made by auditors. Unlike companies, local authorities all undertake the same broad range of services and engage in similar transactions. In the past two audit cycles different audit firms have made different judgements in relation to matters such as Inverse Floater ‘Lender Option Borrower Option’ loans, pension deficit valuation following the McCloud judgement, and acceptable treatments for Minimum Revenue Provision. It is arguable that these differences have increased uncertainty and cost for both local and central government, without improving audit quality or adding any transparency that would help users of the accounts.

## VfM Audit

18. The NAO’s Code of Audit Practice sets out the procedures that auditors must have regard to when undertaking work to support a vfm opinion.<sup>12</sup> The NAO is currently consulting on updating this code.
19. The current Audit Code is a high-level principles-based document. What is noticeable is that other than referring to the need to comply with **relevant** professional standards, there is no mention of audit quality. The proposed updates to the Audit Code indicate that the NAO is not proposing to provide any more detail on quality. This is a particular issue for vfm audits where Auditing Standards are neither relevant nor applicable. The current Audit Code is supplemented by a number of Auditor Guidance Notes (AGNs), which have the same status as the Audit Code. AGN03 covers vfm audit. It takes the form of a principles-based note, with a supplementary document for each sector. AGN03 provides information about sector developments, inspectorates whose work auditors may want to have regard to and about the key documents auditors may want to

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<sup>12</sup> [NAO Code of Audit Practice](#) – chapter 3

look at when forming their audit opinion. There is no mention of audit quality or the work auditors need to undertake before forming their vfm opinion.

20. It therefore seems that other than auditing standards, which are not designed for ensuring that enough work has been done to form a vfm opinion, there is no definition of what a quality vfm audit looks like. Nor does there seem to be any basis for a regulator to form a view on whether an audit firm's procedures are adequate to deliver quality outcomes.

## **Reliance on Internal Audit**

21. All local authorities should have an internal audit function that complies with Public Sector Internal Audit Standards. These standards define the role of internal audit as providing "independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."<sup>13</sup> In practice internal auditors of local authorities cover a range of areas including but not limited to financial resilience, aspects of service delivery, fraud investigations and the operating effectiveness of control frameworks.
22. Whilst being mindful of the prohibition in UK Auditing Standards of external auditors placing direct reliance on the work of internal audit the Review is interested exploring the relationship between internal and external audit, particularly if a closer or more codified relationship could lead to higher quality outcomes.

## **Resourcing Audit Engagements**

23. Delivering high quality audit products is dependent on auditors having sufficient staff with the expertise and sector knowledge to audit local authority accounts. Events during 2018-19 have called into question whether there is enough expertise or resource in the sector. In August 2019, PSAA reported that for 2018-19 accounts, 209 out of 497 audited accounts produced by local government bodies were not delivered on time (2017-18: 64 out of 495 missed the deadline). Whereas in 2017-18, technical accounting issues, client issues and outstanding objections were the main reasons for missing the statutory deadline, in 2018-19 we have been informed that roughly a third of the audited accounts that that were not delivered on time, were late due to issues at audit firms.
24. The Review is interested in views on the impact that the failure to meet statutory deadlines has had on the quality and usefulness of the audit process, on the real world impact for local authorities of this delay, and in suggestions for changes that could be made to the framework to mitigate the risk that this situation reoccurs in future years.

**Q16. Do external audit firms have enough understanding of the local authority regulatory framework to focus audit work on the right areas? How do they/should they demonstrate this? Who should regulate this work?**

**Q17. Do auditing standards have a positive impact on the quality of local authority financial audits?**

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<sup>13</sup> <https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

**Q18. Do audit firms allocate sufficient resources to deliver high quality and timely audits? How is consistency and quality maintained in external audit work? To what extent is there consistency in audit teams year on year? What more can be done to ensure consistency between firms?**

**Q19. To what extent are senior audit staff, particularly the responsible individual signing the audit certificate, visibly involved in audit work? Who do senior audit staff meet with?**

**Q20. Should external auditors consider financial resilience as a key factor when designing their vfm work programme? If so, what factors do they/should they consider as indicative of a lack of financial resilience?**

**Q21. Does the Code of Audit Practice provide enough guidance on how much work needs to be done to support the vfm opinion? If not, what should it cover?**

**Q22. Do auditing standards provide appropriate guidance on quality standards for vfm audits? If not, is guidance needed and should it be included in the Code of Audit Practice or elsewhere?**

**Q23. What is the current relationship between external and internal audit? How should that relationship be developed to add most value to local authorities and local residents?**

**Q24. What should happen when a regulator finds that a local authority audit has not met quality standards? Where should the balance between ensuring effective enforcement action against auditors and maintaining participants in the audit market lie?**



## Chapter 6: Auditor Reporting

1. Auditors of local authorities have a wider range of reporting powers and duties than the auditors of companies. These are:
  - a. The audit certificate and report, which differs from private sector audit certificates in that it has two opinions, the financial audit opinion and an opinion on the adequacy of systems in place to support the economy, effectiveness and efficiency of service delivery, commonly known as the “vfm opinion”; and
  - b. Sector specific statutory reporting powers.
2. The Brydon Review is looking at financial audit opinions and reports in some detail. The arguments made to and conclusions reached by Sir Donald Brydon are likely to be relevant at least in part to the financial audit opinion. In addition, there have been no qualified financial audit opinions in the LA sector since the new arrangements were introduced in 2015-16.
3. Therefore that discussion is not repeated in this Call for Views, which focuses on the format and timing of the vfm opinion; and secondly the use, format and timing of the sector specific reporting powers.

### VfM certificates and reports - format

1. It is arguable that users of local authority accounts are more interested in the vfm opinion than in the financial audit opinion. Currently vfm audit is largely a pass or fail test. The Audit Code requires auditors to form an opinion on whether “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.”
2. The vfm audit opinion is either **clean** also known as **unmodified**, or is **modified** in one of two ways:
  - a. An **‘except for’** opinion means that the LA has proper arrangements in place except for in one or more significant areas.
  - b. An **‘adverse’** opinion means that a LA does not have proper arrangements in place.
3. There are two things to note about this opinion: firstly it is backwards looking – it provides no assurance on whether those arrangements will remain in place going forward; and secondly it provides no assurance that value for money outcomes have been achieved. This is reflected in the Audit Code which requires auditors to consider outcomes to the extent they provide evidence to support the arrangements that the LA says it has.
4. In addition, it is a single opinion covering all of the financial management, financial resilience and service delivery aspects of value for money. This had led to a situation where the most common reason for a qualified vfm opinion is an Ofsted judgement that childrens’ services were “inadequate”. When PSAA published its summary report on the results of 2017-18 audit work it listed 32 qualified vfm opinions. Half of these were due

to an “inadequate” Ofsted rating.<sup>14</sup> The circumstances supporting an “inadequate” Ofsted rating are fully explained in a detailed and publicly available report. Given this, it is not clear how qualifying the vfm opinion adds to transparency.

5. The NAO consultation on the new Audit Code recognises that there may be room to improve the format of the vfm opinion and asks a number of questions about how changes to the Audit Code can make auditor reporting more impactful. This Review is also interested in ideas about how the vfm opinion could be enhanced to provide more transparency to users.

### **VfM certificates and reports - timeliness**

6. Questions have been raised both about how long it takes before an auditor feels comfortable in issuing a qualified vfm opinion and about when the vfm opinion would be most useful to members.
7. Often modified opinions are delivered well after the event that led to a qualification, in extreme cases some years later. For example, during 2016-17 Spelthorne Borough Council, which had net service expenditure of about £10m p.a. purchased the BP Campus for £385m. The auditors issued an adverse vfm opinion in March 2019, by which time Spelthorne had substantially revised its approach to commercial property acquisitions and had built its portfolio through about £600m of additional purchases.
8. The purpose of presenting this example is not to criticise or challenge why the auditors took so long to come to an opinion in this case, but rather to ask whether an opinion formed so long after the event that led to concerns can ever be said to enhance transparency and accountability of members.
9. The timing of the vfm opinion, whether modified or not is also of interest to the Review. Given that the vfm audit looks at the arrangements in place to secure value for money outcomes, it does not necessarily need to be linked to the statutory deadlines for preparing and auditing financial statements. This differs from central government, where the vfm opinion on the ‘regularity’<sup>15</sup> of transactions is directly linked to the annual accounting cycle. The Review is interested in when in the annual cycle an opinion on arrangements in place to secure value for money would be of most use and the resource implications of decoupling the timing of the financial audit and vfm opinions.

### **Statutory Reporting Powers – use and timeliness**

10. Auditors of local authorities have statutory powers that provide them with a number of mechanisms that allow them to sound an early warning. Some of these can be used outside the normal financial audit cycle. These are:
  - a. **Statutory Recommendations** – the auditor has the power to make written recommendations to the audited body, which need to be considered by full council or equivalent in public and responded to publicly. Recommendations can be made during or at the end of the audit and must be copied to the Secretary of State.

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<sup>14</sup> [Report on the results of auditor's work \(Oct 2018\)](#) – list of qualified opinions will not include LAs where the 2017-18 audit was concluded after the PSAA report was published.

<sup>15</sup> Regularity is defined in [Managing Public Money](#) as public funds being spent in a way that is “compliant with the relevant legislation (including EU legislation), delegated authorities and following the guidance in this document.” (Section 2.4)

- b. **Public Interest Report** – the auditor has the power to report publicly on any matter that comes to their notice that may be of interest to the authority or the general public. Public Interest Reports can be made at any time and must be copied to the Secretary of State.
- c. **Advisory Notice on the Budget** – if the auditor considers that a budget presented to and approved by full Council or equivalent is unlawful they can issue a public advisory notice stating that fact and/or make an application for judicial review.
- d. **Application to the courts** – if an auditor considers that an item of account is contrary to law, they can make an application to the courts to disallow it.

11. These powers have not been used to a large extent. Table 1 details the number of times each power has been used for principal councils<sup>16</sup> in the final two years of the Audit Commission regime and the first three years of the current audit framework as reported in the summary publications “Report on the results of auditors’ work” published by PSAA.

Power	<b>Table 1: Modified auditor reporting 2013-14 to 2018-19<sup>17</sup></b>				
	2013-14	2014-15	2015-16	2016-17	2017-18
Modified vfm opinion	18	26	40	43	48
Modified financial statement opinion	0	0	0	1	1
Statutory recommendations	1	1	0	3	1
Public Interest Report	1	2	2	1	0
Advisory Notice	0	0	0	0	1
Application to Courts	0	0	0	0	0

12. The number of modified vfm conclusions significantly increased from 2013-14 to 2014-15, but has remained fairly constant since. Given the increase financial pressure local authorities have been under in recent years an increase in modified vfm conclusions is not that surprising. However, as mentioned elsewhere, the most common reason for a modified vfm conclusion is an inadequate Ofsted report. Since Ofsted does not inspect every local authority’s Childrens’ Services provision every year qualifications for this reason are somewhat ‘sticky’. Once a local authority’s vfm opinion has been qualified on these grounds it will be continue to be qualified in every year until an Ofsted inspection changes the assessment of Childrens’ Services.
13. The use of statutory recommendations has remained at a fairly consistent low-level. This may not be an issue if significant control issues are being reported to elected representatives through other methods.
14. Public Interest Reports have always been very uncommon but seem to no longer be used. This is surprising given the increasingly high profile of commercial and other new arrangements entered into by some local authorities.

<sup>16</sup> Principal councils are defined as upper and single tier authorities, shire districts, fire and rescue authorities, local police bodies, combined authorities and passenger transport authorities.

<sup>17</sup> Source: PSAA. Stats correct as of September 2019. Does not include outstanding audits.

15. An advisory notice on the budget and an application to the courts are rightly seen as nuclear options. Given this, it is not surprising that the only council to receive an advisory notice has been Northamptonshire CC and no application to the courts has been made under the current regime.
16. The Review is interested in views on whether sufficient use has been made of each of modified vfm opinions, statutory recommendations and public interest reports, where these powers have been used whether this has been done in a timely fashion, and in the barriers (if any) for using statutory reporting powers.

### **Publishing a summary of the results of local authority audits**

17. Between 2015-16 and 2017-18 PSAA took over responsibility for producing a report summarising the results of local government (including police and fire) and NHS audits. Now that the new audit regime has been fully implemented, this responsibility has lapsed. The Review is interested in views on whether a summary publication of audit results adds value, if so what it should cover and in which entity is best placed to produce it.

**Q25. Do you think that the format of the vfm audit opinion provides useful information? If not what would you like it to cover?**

**Q26. Do you think the vfm opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate?**

**Q27. Do you think that the vfm opinion is presented at the right point in a local authority's annual financial management and budgeting cycle? If not when do you think it would be most useful?**

**Q28. Where auditors have identified significant issues, audit certificates and reports have often been delayed? Why do you think this is and can changes be made to the framework to encourage earlier reporting of significant issues?**

**Q29. In your view, what sorts of issues should Public Interest Reports be used to highlight?**

**Q30. Statistics demonstrate that very few Public Interest Reports and Statutory Recommendations have been issued. Why do you think this is? Does it indicate an issue with the framework or common behaviours? If you think this is an issue, what can be done to incentivise more frequent and timely reporting of significant issues?**

**Q31. Does a publication summarising the results of local authority audits add value? If so who should publish it and what information would they need to have access to to perform this function effectively?**

# Chapter 7: The Framework for Responding to Audit Findings

## Introduction

1. This chapter looks at whether the governance framework for responding to audit findings and qualified audit reports incentivises LAs to take recommendations seriously. It also considers the profile of modified audit opinions.
2. Whilst some have argued that the auditors of large companies are too slow to highlight issues, when they do raise concerns, there tends to be an immediate and significant impact on the share price of that company. Auditors do not necessarily have to report to have an impact on the value of shares. An auditor announcing that it is going to resign from a listed company audit can have the same impact. This provides a powerful incentive to management, to respond to or to look like they are responding to audit recommendations provided in the annual Audit Completion Report.
3. The same incentive does not exist in local authorities, which have no share price and which are funded largely based on an assessment of relative need. When a local authority receives a modified audit opinion, there is no evidence that this is publicised by the LA or the auditor and such opinions are rarely reported in the sector press.
4. The Best Value Inspection of Northamptonshire County Council (“NCC”) noted that the auditors recorded an adverse vfm opinion in both 2015-16 and 2016-17, but that “neither of these reports seemed to trouble NCC” and that “there is no evidence that the second adverse best value judgement ... was escalated to full council.”<sup>18</sup> Whilst, as the Best Value Inspector highlights, NCC is an extreme case and their lack of reaction to the audit report is unusual, there does not seem to be any consistent practice for much of the sector in the way that auditor reports are received and responded to.

## Who do external auditors report to

5. PCCs and Chief Constables are required to have Joint Audit Committees (“JAC”), with independent members. These are normally chaired by the PCC. JACs are responsible for receiving audit reports and provide independent assurance on the adequacy of the corporate governance and risk management arrangements in place and the associated control environment, advising according to good governance principles and proper practices. There is an expectation that the Chief Finance Officer and Chief Executive will attend all JAC meetings and the Chief Constable will attend the meeting where the audit certificate and report is presented.
6. Mayoral Combined Authorities are required to have an Audit Committee with an independent chair. The other members of the Committee can be independent or as seems to be common practice can be elected members from the constituent authorities. Other types of councils are not required to have Audit Committees although in practice many do. Where a local authority does not have an Audit Committee auditor reports are received by another appropriate committee. There is no statutory guidance or freely available sector specific good practice guidance on either the membership or scope of Audit Committees or their equivalents.

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<sup>18</sup> [NCC Best Value Inspection](#) - paras. 3.85 & 3.86.

7. A CIPFA survey<sup>19</sup> published in November 2016 found that 92% of Audit Committees or equivalent were Chaired by an elected member, normally one appointed from the majority group and 61% had no independent members. Virtually all of these committees considered both external and internal audit reports along with the annual governance statement. Heads of Internal Audit and Chief Finance Officers attended 97% and 95% of meetings respectively. Strategic Directors attended 37% of meetings and Chief Executives 24% of meetings. The survey did not collect data on skills and training of members or on when issues were escalated to full council.
8. There does not seem to be any more recent sector-wide information on which committees receive audit reports, on their membership, attendees, terms of reference or on what gets escalated to full council or other bodies. Nor does there seem to be any explicit requirement for auditors to follow-up on the implementation of non-statutory recommendations, particularly where these relate to vfm arrangements.
9. The use to which audit reports are put by stakeholders is also unclear. Public Interest Reports and Statutory Recommendations must be copied to the Secretary of State. However, MHCLG has no responsibility for taking action when it receives such a report and, other than the best value inspection powers, which are rightly seen as a nuclear option to be used only as a last resort, no authority to take any action. PSAA must be notified when a qualified opinion is issued, but has no responsibility for taking any action.
10. The Review is interested in respondent's views on whether the governance framework for considering internal and external audit findings encourages local authorities to take prompt action in response to issues raised and whether it supports continuous improvement.

**Q32. To whom should external auditors present audit reports and findings; is it the audit committee, to full council or equivalent or another committee? If findings are not presented to full council or equivalent what information (if any) should full council or equivalent receive?**

**Q33. In your authority, what is the membership of the audit committee (number of members, how many are independent etc) and which officers typically attend?**

**Q34. How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates? What should the external auditors do if recommendations are not being implemented?**

**Q35. Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports? If so should that responsibility sit with MHCLG, the sector specific oversight body recommended by the Independent Review of the Financial Reporting Council or another body?**

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<sup>19</sup> <https://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/cipfa-survey-of-audit-committees-in-local-authorities-and-police>

# Chapter 8: The Financial Reporting Framework

## The purpose of financial reporting in the local authority sector

1. Financial reports provide basic information to people interested in the performance of an entity. Most of the money that local authorities receive is provided from general or local taxation. Given this, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with the money.
2. Other than through use of inspection and objection rights (**see chapter 6**), many of the individuals with an interest in the performance of a local authority do not have the power to require the authority to produce customised financial or performance information. Instead they rely on the financial statements. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to be interpretable by a reasonably well-informed person.

## Introduction to the framework

3. When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these conflict with specific statutory requirements. When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency, with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of types of local authorities and supreme audit institutions in all four jurisdictions of the UK, the Financial Reporting Council, auditors and independents. MHCLG has observer status on this Board.
4. The Code applies to principal councils, police and crime commissioners, chief constables, fire and rescue authorities, the Greater London Authority, mayoral combined authorities, passenger transport executives and national parks authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.
5. The Code is updated annually and a new edition is published each financial year. It is not a free document. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that not every local authority purchases a new Code for every financial year.
6. The Code does not apply to parish councils, ports authorities or independent drainage authorities with gross income and expenditure of less than £6.5m per annum (which is currently all of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG),

which comprises representatives of the associations for each type of smaller authority, auditors active in the sector, the National Audit Office, the Smaller Audits Appointments Authority Ltd and MHCLG. Smaller parish councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 9**.

## Format of local authority accounts

7. The first thing that is noticeable when looking at local authority accounts is their length. Table 2 compares the length financial statements section from the 2018-19 annual reports of five local authorities selected at random to the financial statements section from the 2018 annual reports of two large and complex private sector corporations.

Entity	Net General Fund Service Expenditure	Financial Statements Length (pages) <sup>20</sup>
Bristol City Council	£351.5m	124
Fenland District Council	£12.7m	79
Leeds City Council	£755.8m	77
Richmondshire District Council	£6.3m	72
Merseyside PCC	£460.1m	66
Royal Bank of Scotland PLC		77
CAPITA PLC		84

8. The second key aspect of local authority accounts is that they look different to central government and private sector accounts. All local authority accounts have two sector specific primary statements. In addition to this, some authorities are required to produce supplementary accounts.
9. Table 3 shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
<b>Movement in Reserves Statement (MIRS)</b>	<b>Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the General Fund balance for Council Tax setting purposes.</b>
Balance Sheet	Sets out the Council's financial position at the year end.
<b>Expenditure and Funding Analysis (EFA)</b>	<b>Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.</b>
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.

<sup>20</sup> Number of pages counted does not include annual report, governance statement or audit report



Collection Fund Account <sup>21</sup> - Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA) - LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

10. The statements referred to above are supported by Accounting Policies and Notes to the Accounts. Many of the notes are those required by accounting standards. However, the local authority specific primary statements have local authority specific notes.

### The balanced budget requirement and statutory adjustments

11. The key financial control in local government is the balanced budget requirement. Every local authority is required to approve a balanced budget by either 1 or 8 March before the start of the financial year to which it relates. The calculation that local authorities are required to make is set out in primary legislation. It can be summarised as:

	£'
Net service expenditure	(x)
NNDR & grant income	x
Other income/expenditure	x/(x)
Appropriations from/to reserves	<u>x/(x)</u>
Council tax requirement	x

12. The balanced budget calculation has a lot to recommend it. The fact that full council or equivalent passing the balanced budget makes the council tax charge for the coming year lawful provides a strong incentive to set and approve a balanced budget every year. Local authorities are also required to maintain a self-assessed level of general fund reserves commensurate with sound financial risk management. When a local authority overspends it will need to generate additional income or will need to utilise reserves, which will mean that there is less resource available to support the following year's budget.

13. There are a couple of issues with the calculation. Firstly, it was designed in 1992, prior to the introduction of accruals accounting in the local authority sector; and secondly, as the specific calculation is set out in primary legislation, changing it would require including amending clauses in an Act of Parliament covering an appropriate topic.

14. Following the adoption of accruals accounting by the local authority sector and as International Financial Reporting Standards ("IFRS") have continued to develop, successive government have sought to protect council tax payers from accruals movements that do not have an immediate impact on the costs of service delivery through means of statutory overrides.

<sup>21</sup> Districts and Unitary Authorities including London Boroughs collect Council Tax and NNDR. They are known as 'billing authorities'. Taxes collected are shared between billing authorities and other authorities with a right to a share of those taxes (known as 'precepting authorities') in proportions set out in statute.

15. The most significant of these adjustments relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the EFA and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).
16. The adjustments process has two consequences. Firstly it greatly increases the length of local authority accounts as in addition to having between two and four additional primary statements (all with their own notes), the accounts report some transactions on both an accruals and a funding basis and include notes reconciling the two; and secondly, neither the CIES or the Balance Sheet show the true financial position of an authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

### **Recent developments in the sector**

17. The length and difficulty in understanding local authority financial information has been a subject of discussion for some time within the sector. For example, CIPFA has produced a strategy discussion paper on whether the current Accounting Code supports the production of useful information in a cost-effective manner.
18. There has also been a push to put more useful summary information in the narrative section appended to the front of the financial statements. However, as highlighted in **Chapter 2**, this information is not subject to audit. All the auditor is required to do is to read this narrative information to ensure it is not inconsistent with the accounts or their understanding of the business.

**Q36. Do local authority accounts allow the user to understand an authority's financial performance and its financial resilience? If not, how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific LA is getting better or worse?**

**Q37. The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this, how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?**

**Q38. Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis and should this information be covered by the financial audit opinion?**

**Q39. If you think that summary financial information should be reported in the annual report section of the accounts, should it be presented with performance information? If so, what performance information would be of most interest to stakeholders?**

## Chapter 9: Other Issues

### Inspection of and objections to items in the accounts

1. Inspection and objection rights are intended to allow local residents to hold their councils to account. Local authorities are required to publish their unaudited accounts on the council website for a continuous 30 day period that must include the first ten days in June. Local residents, interested persons and journalists can inspect the accounts and related documents. Those on the electoral register can also ask questions about the accounts produced by their local LA and raise an objection with the external auditor to a transaction therein.
2. The auditor is required to consider all objections and if they have merit, to launch an investigation. Investigations can lead to a Public Interest Report or to an application to the courts to declare a transaction unlawful. If the matter does not warrant either of these outcomes, it may still be a matter that the auditor may wish to raise with the authority or to consider as part of their routine planned audit work. Where an auditor investigates they will write to the person who raised the objection setting out the results of their investigation. They do not copy this letter to the LA, MHCLG or any other party.
3. There has not been any objection on accounts has led to a Public Interest Report or an application to the courts since the introduction of the current regime. Anecdotal evidence suggests that there are two types of objections. Some local residents have specific issues with their local authority's expenditure on one or more items and raise objections on the same matter every year. The second type of objection is where special interest campaigns have tried to get local residents to object to the same item in accounts across a number of local authorities. This type of objection has been made in relation to PFIs and Lender Option Borrower Option loans (LOBOs).
4. There is no central record of how many objections have been raised by authority, what percentage of these have led to investigations and/or recommendations to management, or what the costs of this process have been both for auditors and local authorities. Where objections have been raised about a sector-wide, for example LOBOs, they have taken a long time to resolve and in for some LAs this has held up completion of the audit process.

### Changes in local authority business models

5. As alluded to elsewhere in this call for views, the business models adopted by local authorities have seen significant change since the current audit regime was introduced.
6. The first significant change is the general power of competence introduced in the Localism Act 2011. This allows local authorities to set up wholly-owned subsidiaries, which are allowed to do anything a legal person can do. Before 2014-15, the general power of competence was not widely used. However, in recent years local authorities have increasingly used this power to set up subsidiaries covering a large range of business activities. Thinking about the impact general power of competence companies have on the financial and vfm audit opinions poses a challenge for auditors, as irrespective of whether they are material enough to require group accounts, they can expose local authorities to financial and reputational risk or divert management attention away from core service delivery.

7. The second significant change relates to wider partnership working – how local auditors can cooperate effectively with each other when reporting on partnership working. Partnerships are often non-statutory arrangements in which local auditors can only report on the arrangements in place within the individual bodies they audit. Some of these are set up by agreement between local authorities. Others such as Clinical Commissioning Groups and some Local Enterprise Partnerships have been set up as a result of government policy.
8. The final significant change is the increase in borrowing to fund commercial property acquisition (“commercialisation”). In some cases local authorities have designed commercial property strategies purely to generate a return. However, many of these strategies will also be focused on regeneration and increasing local economic activity. Commercialisation provides a challenge for the financial audit partly due to the materiality considerations discussed in **Chapter 5** and partly due to the auditor’s need to consider and understand appropriate laws and regulations. It poses a challenge for the vfm audit opinion partly because the auditor will need to check whether an authority has appropriate systems in place to manage this activity and partly because of the risk of diverting management attention.

## **Smaller Authorities**

9. As noted earlier in this call for views, the local authority financial reporting and audit framework includes smaller authorities. Smaller authorities, also known as “Category 2 authorities”, are parish councils, drainage authorities and similar with gross annual income and expenditure not exceeding £6.5m. Smaller authorities with gross income or expenditure of more than £200k are required to prepare a simplified accruals Annual Governance and Accounts Return. Those with income and expenditure of less than £200k can prepare a receipts and payments Annual Governance and Accounts Return. Those with no income and expenditure are allowed to send a statement to their auditor declaring themselves to be exempt from preparing accounts.
10. Smaller authority Annual Governance and Accounts Returns are subject to a limited assurance review. Undertaking a limited assurance review primarily involves performing inquiry and analytical procedures, thereby enabling the auditor to reach a conclusion on whether anything has come to their attention that indicates that the accounts are not true and fair. The conclusion provides some assurance to users of the accounts but less than a full audit certificate.
11. The first issue the Review wants to explore is the adequacy of this opinion for all smaller authorities. As services and assets are transferred to them a small number of parish councils are approaching the £6.5m threshold. Given the sums of money they have stewardship for, questions have been asked about whether they should be subject to a level of external review greater than a limited assurance engagement. One of the issues with this suggestion is that the next level of assurance recognised by professional standards bodies is a full external audit, and legislation already allows Category 2 authorities to ‘opt up’ if they so wish.
12. The second issue the Review wants to explore is the inspection and objection regime for smaller authorities. A few smaller authorities receive a large number of objections on each set of accounts. As auditors are allowed to charge additional fees to recoup their

costs in responding to objections, the financial burden on smaller authorities whose accounts are objected to can be disproportionate, potentially leading to an increase in Council Tax bills for local residents. The Review is interested in suggestions in the way this burden can be reduced, whilst retaining the right for all local residents to inspect and object to items of account.

**Q40. For larger authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner? If not, how should the regime be modified?**

**Q41. Is more guidance needed to help auditors assess the impact of significant changes to common business models? If so is this guidance needed to support the financial audit, the vfm audit or both?**

**Q42. Is the financial reporting and audit framework for larger category 2 authorities appropriate? If not, what additional information should be subject to audit/assurance and what would be the cost implications of this?**

**Q43. For smaller authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner and is the cost of processing and responding to objections proportionate? If not, how should the regime be modified?**

# Appendix 1: About this Call for Views

## Who is this for?

1. The Review would welcome views from any respondents with an interest (direct or indirect) in local authority audit and financial reporting.

## How to respond

2. This call for views closes on 20 December 2019.
3. Please send any response to [Redmond.Review@communities.gov.uk](mailto:Redmond.Review@communities.gov.uk)
4. If you do not have access to email, you can write to Redmond Review Secretariat 2nd Floor Fry Building, 2 Marsham Street, London, SW1P 4DF.

## Disclosure of the information you provide

5. Because information provided in response to this call for views will be received by the Review Secretariat which is hosted by the Ministry of Housing, Communities and Local Government, that information may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004).
6. If you want information you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
7. In view of this it would be helpful if you could explain to us why you may regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.
8. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.

## Personal data

9. The following is to explain your rights and give you the information you are entitled to under the Data Protection Act 2018.
10. Please note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

## The identity of the data controller and contact details of our Data Protection Officer

11. MHCLG is the data controller. The Data Protection Officer can be contacted at [dataprotection@communities.gov.uk](mailto:dataprotection@communities.gov.uk).

## Why we are collecting your personal data

12. Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### **Our legal basis for processing your personal data**

13. The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

### **With whom we will be sharing your personal data**

14. Your data will be shared with the Independent Reviewer.

### **Your rights, e.g. access, rectification, erasure**

15. The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
  - to see what data we have about you
  - to ask us to stop using your data, but keep it on record
  - to have all or some of your data deleted or corrected
  - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law.
16. You can contact the ICO at <https://ico.org.uk>, or telephone 0303 123 1113.
17. Your personal data will not be sent overseas.
18. Your personal data will not be used for any automated decision making.
19. Your personal data will be stored in a secure government IT system.

# Appendix 2: Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

## A. Purpose

The Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) invites Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014 (the Act). The Review will not look at broader issues of local authority finances and sustainability.

## B. Review objectives

The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

## C. Scope

The review's scope is taken to include the objectives and context included in these terms of reference.

In practice, this means the review is likely to focus on the following questions;

- Have the financial savings from local audit reforms been realised?
- Is there a more accessible audit market and has there been an increase in audit providers?
- Have audit standards been maintained or improved, and not been compromised?
- Is there an 'expectation gap' in what external audit provides? What is the nature of the gap and how can it be filled?
- Are auditors properly responding to questions or objections by local taxpayers?
- Are auditors using their reporting powers in an appropriate way?
- Are audit recommendations effective in helping local authorities to improve their financial management?



- Are councils responding to auditor recommendations in an appropriate manner?
- Whether local authority accounts report financial performance including use of resources against budget in a manner that is transparent and comprehensible to council tax payers and the general public?
- Does the financial information provided in local authority accounts facilitate scrutiny by local taxpayers and by the local press?

The financial reporting and audit framework for Clinical Commissioning Groups, NHS Trusts and Foundation Trust and special trustees for hospitals is outside the scope of this Review. This is because these bodies have significantly different statutory bases and governance frameworks to other bodies covered by the Act.

## **D. Context**

Local Government in England is responsible for 22% of total UK public sector expenditure. It is essential that local authority financial reporting is of the highest level of transparency to allow taxpayers to understand how their money is being spent.

The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. It gave effect to manifesto commitments to abolish the Audit Commission and its centralised performance and inspection regimes and put in place a new localised audit regime, refocussing local accountability on improved transparency.

Now the Act has been fully implemented, the Government is required to review its effectiveness. This review will meet MHCLG's commitment to undertake a post implementation review of the audit framework and financial reporting elements of the Act. The Government wants to use this opportunity to step back and review the effectiveness of the local authority financial reporting and audit regime. Developments in the sector such as the growth of commercial investment activity have led to a perceived widening of the 'expectation gap'; that is, the difference between what users expect from an audit and the reality of what an audit is and what auditors' responsibilities entail. There may also be an expectation gap between the information that users of local authority accounts believe is needed and what is available to them through audited financial statements or other publicly available information.

Other elements of the Act, including openness transparency of council meetings, the local authority publicity code and intervention powers are outside the scope of this Review. MHCLG will undertake a post implementation review of those elements of the Act in house.

This Review has assumed greater significance due to developments elsewhere. BEIS commissioned Sir John Kingman in April 2018 to carry out a review into the role of the Financial Reporting Council and, in February 2019, Sir Donald Brydon to carry out a review into the quality and effectiveness of statutory audit (reporting in December 2019). In addition, the Competition and Markets Authorities' 18 April 2019 report recommends changes to the statutory audit market that will impact on local audit. Alongside this, there have been three recent PAC hearings on: the Financial Sustainability of Local Authorities (Nov 2018) Local Audit in England (Jan 2019) and Local Authority Governance (Mar 2019). Finally, as part of its legal duties, the National Audit Office is required to review and replace the current Code of Audit Practice by April 2020.

## **E. Governance**

The review will be led by Sir Tony Redmond and report to the Secretary of State for Communities and Local Government

The Independent Reviewer will be supported by an Advisory Group that will advise on the direction of the review and sources of evidence and will help to scrutinise and challenge emerging findings and recommendations.

## **F. The Review Secretariat**

There will be a small dedicated Review Secretariat acting in support of the Independent Reviewer.

## **G. Stakeholder Engagement**

The Review will undertake engagement with a wide range of stakeholder groups, including those representing the interests of local authorities, the accountancy profession, and local residents and taxpayers in order to fully understand the range of issues and to ensure constructive challenge.