

Welcome to the fourth Local Audit Quality Forum

25 November 2019



Welcome and update on local audit

Steve Freer, Chair, PSAA

Tony Crawley, Chief Executive, PSAA



PSAA session at the LAQF 25 November 2019

Introduction

- Significant delays in the issue of 2018/19 audit opinions
- We are very sorry that this is the position & appreciate how unhelpful and disruptive it is for audits to overrun or be rescheduled at short notice
- Aware that there are lots of other uncertainties facing local bodies at present

Context of previous performance

- Delayed local government opinions aren't new – 64 in 2017/18.
- Significant deterioration in 2018/19 - 208
- opinions outstanding at 31 July
- Over 100 still outstanding today
- Although 31 July is not a statutory deadline, it is a widely accepted target and a clear sector expectation
- Shortage of audit staff resources not an issue for 17/18 – but has emerged as a significant issue in 18/19
- Two other main reasons for delayed opinions cited by auditors – quality of accounts and working papers and unresolved technical issues

Context of audit profession

- The profession has been in the spotlight for last 12-18 months
- Lots of scrutiny – high profile corporate failures where role of auditor has been questioned
- Widespread concern – Government commissions three reviews
 - Sir John Kingman – audit regulation - recommendations include proposed abolition of FRC and new body for local audit with '*a different and much more focused remit than the former Audit Commission*'.
 - CMA – audit market – recommendations include formally separating the audit business of the firms from non-audit functions like tax, consultancy and restructuring services, and ringfencing external audit fees and costs to eliminate any cross-subsidisation between audit and other lines of business
 - Sir Donald Brydon – reviewing the audit product – not yet reported

- These three are focused primarily on the audit arrangements of large private sector companies. MHCLG has asked Sir Tony Redmond to review local government financial reporting and external audit
- Meanwhile audit has constantly been in the headlines – eg in connection with Select Committee inquiries. Coverage has been negative and damaging to perception and reputation of audit.
- Result is intense focus on audit quality
- Auditors required to demonstrate more scepticism when challenging management assumptions and processes
- Example of ISA 540 on audit of accounting estimates – applies from 2020/21 and significantly increases required procedures
- Firms revising their audit approaches in response – more risk-averse & more audit work required before being confident opinions can be issued
- Applies to all audits including all local audits

Local audit – three causes of delayed opinions

Firstly – shortage of suitable auditors

- Local government is a specialist area
- Accounts meld IFRS and funding bases, with reconciliations between them
- CIPFA acknowledges the complexity - recent CIPFA/LASAAC strategy paper on the Code states:

‘the length and complexity of accounts produced in accordance with the Code can make them impenetrable to many, and producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams.’ (CIPFA/LASACC discussion paper – Local Authority annual accounts – A strategic approach)

- This complexity adds to the audit resource challenge
- There was sufficient capacity when firms bid for the contracts in 2017 – 2017/18 audits delivered subsequently - the first year of the new early closure timetable
- We understand from the firms that, post 2017/18, there was a higher than expected attrition rates – impact of back-to-back NHS and local government audits. Audit quality pressures have added to challenge
- Arguably firms could have responded quicker
- Earlier identification would have helped finance teams to plan their work and leave schedules accordingly

- We have spoken with the firms about the importance of clear & timely communication by the local teams to you – including at planning stage about any potential additional work that may lead to fee variation proposals
- Progress on clearing backlog slower than anticipated
- Domino effect if an audit is delayed
- Recruitment challenging and having to look abroad across sectors – will take time to get new recruits up-to-speed
- In the new local audit system we are wholly dependent on firms

Secondly – quality issues with financial statements and working papers

- More issues than previously being reported by firms
- Sometimes tensions between the auditors' and bodies' views on quality eg what is a reasonable depth of challenge to management's use of experts
- Auditors seek validation of data that drives key figures – could mean physically checking room sizes and comparing to the data given to a valuer, or challenging management to explain why they have accepted the assumptions suggested by an expert such as an actuary
- Driver is audit quality – but finance teams are lean & some have limited capacity to respond in a shorter timetable
- CIPFA consulting on Accounting Code options – but for now audit focus is on figures with potential misstatement risk – impact on bottom line not a determining factor. Means focus on PPE and pensions valuations – probably not the top priority for the CFO.

Thirdly – unresolved technical issues.

- Local government income and expenditure used to be largely predictable and stable
- Localisation of risk and reward plus austerity means more commercialism and innovation – partnerships, subsidiaries and so on – can mean accounting complexities for already pressured finance teams
- Views on treatment can vary and take time to resolve
- Group audits a noticeable factor in delays for the first time

Conclusion

- Current situation is very complicated, and there are no easy or quick solutions

- PSAA is trying to play its part in finding a way forward to overcome immediate problems and help to build a more robust and resilient system for the future.
- Key issues include the need to
 - respond to the changes in audit regulation, auditing standards and in audit firms (for example their structures), and the changes that have and will arise from the Government's reviews;
 - develop a more joined-up local audit system;
 - achieve a sustainable, competitive audit market; and
 - ensure an adequate supply of suitably trained and experienced auditors
- PSAA has commissioned projects and research to take some of this work forward, including in particular how we can retain existing suppliers and attract new firms into the market
- The ongoing Redmond Review is very interested in all of these audit and financial reporting issues as well. Hopefully it will help to signpost the way forward too.

Support from the LGA for Audit Committees – an update

PSAA Local Audit Quality Forum
25 November 2019

Background

- Big focus at June LAQF was practical help for Audit Committees
 - Given the current profile of audit, we need to ensure:
 - the importance of Audit Committees is appropriately recognised
 - Audit Committee members are properly equipped and receive any additional support they may need
 - LGA very keen to support this agenda, building on our generic support, to provide something more specific for Audit Committees
-

LGA response...*Leadership Essentials*

- Now developed and being piloted early in New Year
 - Opportunity for Audit Committee chairs/members to participate in a facilitated learning experience with input from specialists and experienced practitioners
 - Developed by LGA in partnership with PSAA and CIPFA
 - Dates:
9/10 January
1/2 February
...further dates expected to follow
-

Other ideas for support from LGA

- Resources bank: what good looks like
- Increase profile within Councils through engagement with Leaders, Chief Executives and Section 151 officers at all councils
- Develop a 'peer network' of more experienced Audit Committee chairs who can give advice to their colleagues

We want to explore with the sector if and how these could be developed. Thank you to those that have already offered support – we will be in touch!

Refreshments and Networking

11:40-12:00

Getting assurance on difficult issues

**Sumita Shah
Regulatory Policy Manager, ICAEW**



Without Question

SUMITA SHAH

PUBLIC SECTOR TEAM, ICAEW

Introduction slide on the film

- ICAEW's role in local public audit (www.icaew.com/localaudit)
 - License and registration of local auditors against legislation/regulations set eligibility criteria;
 - Monitoring of local auditors work (first QA will be in January 2020);
 - Complaints/Investigation/Disciplinary
- Summary of the film
- Today, watch the film and consider in the context of your role as a Chair or Member of the Audit Committee.



*This film provides an interesting way to highlight the challenges of DIFFERENT PARTIES seeking assurance on difficult issues AND explores the importance of **understanding roles and responsibilities**, how important it is to **challenge and apply scepticism**, the **cultures and behaviours** that you might see in organisations, and how **effective communication** is important between the various parties.*

Roles and responsibilities

Those charged with governance (TCWG)

- The person(s) or organisation(s) with responsibility for overseeing the strategic direction and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel, for example, executive members of a governance board.
- governance is the term used to describe the role of persons entrusted with the supervision, control and direction of an entity.
- TCWG Should have an understanding of all significant issues that have arisen from the audit process.

Management

- The person(s) with executive responsibility for the conduct of the entity's operations. Management could include some or all of those charged with governance, for example, executive members of a governance board.

In the context of local government audit – TCWG are the Audit Committee

Roles and responsibilities contd... External Audit

- All local government external auditors have the same duties and responsibilities, as set out in:
 - LAAA 2014, Pt 5
 - the Code of Audit Practice issued by the National Audit Office
- The general duties of auditors are specified in LAAA 2014, s 20(1) requiring them to be satisfied in auditing the accounts that:
 - the accounts comply with the requirements of the enactments that apply to them
 - proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view
 - the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- Per LAAA 2014, s 20(2), auditors mark the completion of an audit by entering on the statement of accounts:
 - a certificate that the audit has been completed in accordance with LAAA 2014
 - the auditor's opinion on the statement
- These duties must be carried out in compliance with the Code of Audit Practice published by the National Audit Office (NAO) (LAAA 2014, s 20(5)) and having regard to guidance issued by the Comptroller and Auditor General (LAAA 2014, s 20(6))

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Roles and responsibilities contd...Internal audit

- The Accounts and Audit Regulations 2015, SI 2015/234 issued in exercise of the powers conferred by LAAA 2014, ss 32, 43(2) and 46 make provisions in relation to internal audit.
- Regulation 5(1) requires that authorities must undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes. This audit must take into account public sector internal auditing standards or guidance.
- Under Accounts and Audit Regulations 2015, SI 2015/234, reg 5(2), officers and members must make available such documents and records and supply such information and explanations as are considered necessary by those conducting an internal audit, provided they are required to do so for the purposes of the audit. 'Documents and records' are specified to include information recorded in an electronic form.
- Audit committees are now a common feature of local authority governance arrangements, particularly in directing and reviewing internal audit work, but are not a statutory requirement.

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Roles and responsibilities contd... PSAA

- Role set by the Local Audit (Appointing Person) Regulations 2015
- Appoint local auditors to opted in authorities
- Set scale fees for the audits
- Keep and maintain a record of which principal authorities are opted in authorities and publish that record on a website; and
- Design and implement appropriate systems to:
 - Oversee issues of independence of any auditor which it has appointed, arising both at the time of appointment and when undertaking audit work;
 - Monitor compliance by a local auditor against the contractual obligations in an audit contract;
 - Resolve disputes or complaints from local auditors, opted in authorities and local government electors relating to audit contracts and the carrying out of audit work by auditors it has appointed.

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Summary

- **Roles and responsibilities**
 - Are you clear about the roles and responsibilities of the various parties?
 - Right mix of skills on Audit Committee: independent members?
 - Are TCWG involved in the decision-making process?
 - What are the training needs?
- **Challenge and scepticism**
 - Be prepared to challenge more within your own governance structures.
 - Ask questions of:
 - Management
 - Internal audit
 - Advisors
 - External auditors
 - How do TCWG make sure that independence and objectivity is maintained in the external audit relationship?
 - Do TCWG understand the full range of risks and professional advice?
 - What are the private sector / partnership risks to understand when getting into commercial / partnerships?

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Summary

- Culture and behaviours
 - Think about the ethical issues, motivations of people.
 - Are people being asked to do things that they are uncomfortable with?
 - Are there any codes of conduct, standards, guidance training etc?
 - Professional scepticism applies to all (not just the auditors)
- Effective communication;
 - Whose responsibility is it? It takes two to communicate!
 - Listen and Hear – are you hearing/understanding what has been said or are you hearing what you want to?
 - Information flows
 - Are you asking for the right information?
 - Are you receiving all the information that you need?
 - Do you understand the information that you receive?
 - Do you read the committee papers sufficiently?

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To find out more

How can we help?

This film forms part of ICAEW's training offering and is therefore not available for general public consumption.

ICAEW organises bespoke training for Audit Committees / Boards to think through some of the key issues identified in the film. Find out more on www.icaew.com/withoutquestion

Join our Public Sector community: www.icaew.com/publicsector

Join our Corporate Governance community: <https://www.icaew.com/technical/corporate-governance/corporate-governance-community> and check out our online resource area at www.icaew.com/corporategovernance

Visit www.icaew.com/localaudit to find out more about ICAEW's role under the LAAA.



Contact sumita.shah@icaew.com
Subject header: Without Question Film – Training Enquiry

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Lunch

13:00-13:50

Local Government session: Bevin Hall

Police session: Smith Square 1&2

THE AUDIT COMMITTEE'S ROLE IN LOCAL GOVERNMENT

PSAA
25th November 2019

Ian Fifield
Managing Director
Fifield Training Ltd



Fifield Training

UNDERSTANDABLE FINANCE TRAINING

Session Agenda

- Putting this morning's session into a local government context
- Two case study examples
- Sharing good practice

Opening Discussion

- Considering this morning's sessions...
- What do you think were the key transferable issues for an Audit Committee in local government?

Key Issues – Professional scepticism

- Having a questioning mind, being alert to possible errors, omissions and poor assumptions
- Not accepting the first answer at face value without other assurance
- “Triangulating” information – does it all add up?

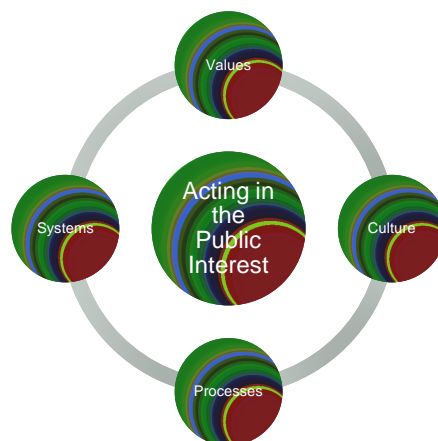
Key issues – Reports and Meetings

- Your Committee is likely to receive full packs of agenda papers....
- Are these tailored for the Audit Committee or just forwarded on from other committees?
- Has everyone read them with a sceptical eye?
- How are such reports commissioned and challenged by the Audit Committee?
- What do you do with the reports? What type of recommendations do you make?

Key issues – Effective challenge

- Have you asked enough questions?
- What is the quality of the answers to your questions?
- Is there evidence that decision-takers have asked questions and understand the decisions they are taking?
- Have you received adequate assurance that risk has been mitigated and controls are in place?
- Are your recommendations taken seriously?

Key issues – Governance and control



“Achieving the intended outcomes while acting in the public interest at all times” (CIPFA/IFAC 2014)

Northamptonshire County Council Best Value Inspection Report March 2018 (para 3.90-91)

- “Scrutiny by the Audit Committee was not effective”
- “Whilst the Chair...gave the impression that they had tried to challenge, it is clear that they were repeatedly thwarted”
- “reports have taken many months and much persistence...to be prepared and brought to the committee”
- “the process *{of reporting to Council}* is neither systematic nor comprehensive and relies on the choice made by the Chair and the emphasis that he puts on it”

Case study 1 - Commercialisation

The council’s Cabinet has recently approved a strategy involving significant increases in commercial property investment. This will be partially funded by investing the council’s reserves, but also approves external borrowing when the projected return is greater than the cost of borrowing.

What assurances should the Audit Committee require when considering this policy?

Possible lines of challenge

- Compliance with law and regulation
- Who are the key decision makers? How experienced are they in such matters?
- Has there been an overall business case for the proposal?
- How will individual investment opportunities be appraised?
- Are risks suitably identified and mitigated in both of the above documents?

Case Study 2 – Group Companies

The council is currently exploring the establishment of an arm's length company to manage its housing stock. The company will be responsible for the management (currently run in-house) and maintenance of the stock once the current externalised contract ends. The council also plans to lend to the new company so that they can invest in new housing development.

- What assurances should the Audit Committee require?

Possible lines of challenge

- How “new” is this to the council and officers?
- How does this fit with the council’s agreed objectives?
- How / by whom are decision makers being advised?
- Are revised controls, performance evaluation and governance arrangements been considered?
- How effective do these appear to you?
- What happens if it all goes wrong?

Summary

- Professional scepticism
 - Have you told us everything we need to know?
 - What happens if it goes wrong?
- Is the “status and standing” of the Audit Committee sufficient for you to provide effective challenge?
- How has any changing service delivery model affected governance, control and risk frameworks?
- Does the Finance Director have sufficient authority and resource?
- Does your Internal Audit function have sufficient authority and resource?



Fifield Training

UNDERSTANDABLE FINANCE TRAINING

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These training materials provide a view of current practice and contain general advice and comments only. You should seek further advice from your organisation's finance professionals before acting upon any of the specific issues covered within the materials or placing reliance upon them in any particular circumstances.

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CIPFA The Chartered Institute of
Public Finance & Accountancy

Managing the Police Estate –

What does good look like?

David Bentley – Head of Asset Management

November 2019





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The Starting Point?

We should know

- What we own
- How it performs
- If we can afford it
- Whether or not we need it moving forward

So where are we?

- “Managing property assets requires co-ordination with all parts of an organisation. It is strategic and business led and requires the co-operation of the whole organisation to be successful and in order that the most effective space is delivered”

RICS Public Sector Asset Management guidelines (2nd edition)

A Difficult Puzzle To Solve?

- Property needs to be aligned with goals, aims and objectives
- Property is 'illiquid'
- Involves whole organisation
- Involves all headline resources
- Constantly moving target?

1. Governance and Decision Making
2. Corporate Landlord model
3. The Battle Plan
4. Prioritisation of Budgets and Whole Life Consideration
5. Performance Management - Information is power
6. Asset Challenge
7. Maintenance and Compliance
8. One Public Estate
9. The Office Estate and the Impact of Buildings on what we do

1. Governance and Decision Making



8.1 Organisational culture

- 'The culture and attitude of an organisation in relation to property asset management is often a more significant contributor in delivering property asset 'success' than the organisation of the property asset management function itself.
- Property asset management success can be measured in many ways, but to be completely effective, the property asset management function must embrace and be supported by the whole organisation.
- A successful organisational culture, therefore, will see the use of property assets as a corporate issue and the efficiency and effectiveness of property asset use, as a corporate responsibility.'

Features of Good Property Asset Management

- Good linkages to corporate aims and objectives and corporate decision-making
- A defined 'lead' on property asset management and full involvement of all key operational & corporate business areas
- Clear accountability for property asset management decision-making at 'board level'
- Separation of strategic property activity & day-to-day activity
- Integration with financial planning
- Good linkage with other central and support functions
- Explicit & effective annual business process for property assets

The High Level

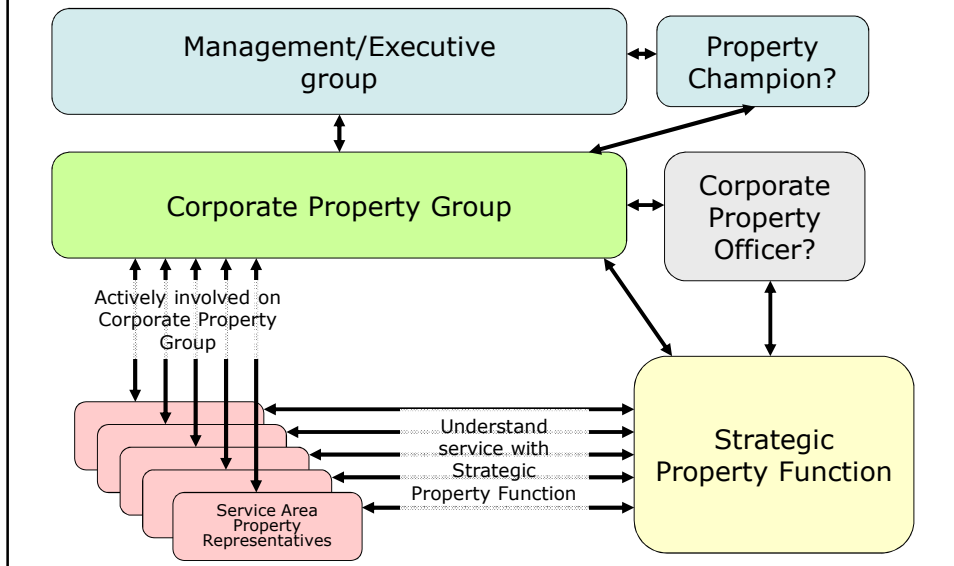


1. Understanding the organisation's aims, objectives & future direction
2. Identifying other issues that require a coordinated/corporate response
3. Developing into a property vision
4. Engaging decision makers & senior managers

Down on the ground

1. What is the current position?
2. How do our assets support current service delivery?
3. How will our services/operations change in the future?
4. Pull this information together in a clear, simple but consistent format and get everyone around the table

Structure, Roles and Responsibilities – *Not an exact science*



2. Corporate Landlord model

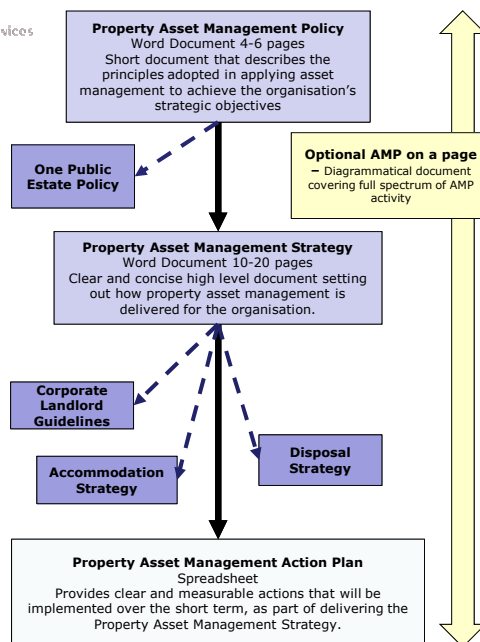
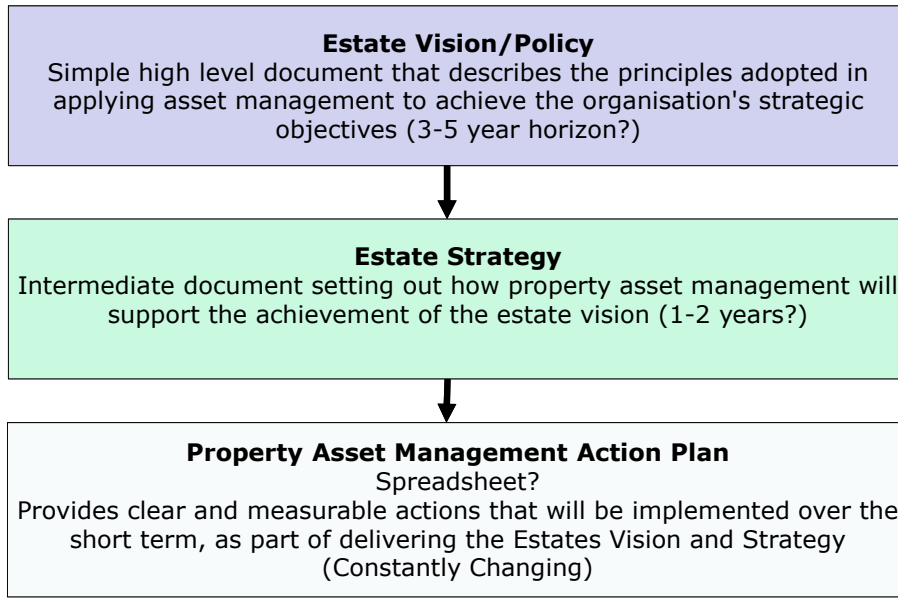


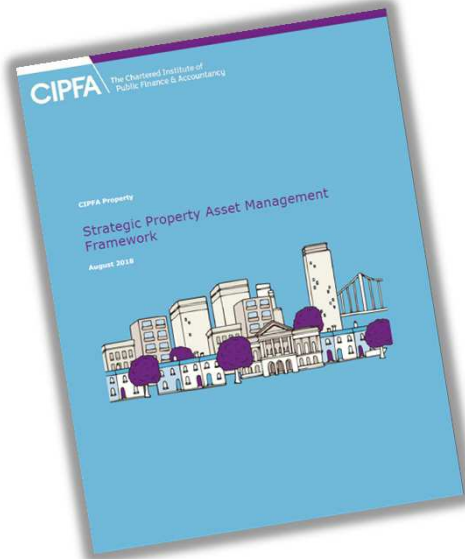
- To support wider organisational objectives and priorities
- To better plan resources across the organisation
- To set clear and consistent policies and procedures in a strategic setting
- To ensure skills and resources are best used
- To enable a comprehensive understanding of the performance of the portfolio and its use to inform strategic decision making
- To ensure that the property portfolio is safe & fit for purpose
- To ensure a sustainable asset base
- What should it look like, and what do most look like?

3. The Battle Plan



The Battle Plan?





An AMP for all seasons?

4. Prioritisation of Capital Budgets and Whole Life Consideration



- A fully costed robust annual approach (bidding process)
- Structured
- Transparent
- Based on Organisational aims/objectives
- Standard business cases

Capital Bid Form 2017/18 –
Proposals over £10k

Details of Proposal			
Brief Description:			
Expected Life span of proposal			
Lead officer		Service Area	
Which of the councils core objectives does this scheme support			
Capital Cost of proposal	2017/18	2018/19	2019/20

Revenue Consequences

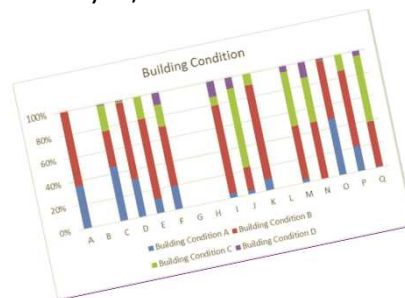
2018/19	2019/20	2020/21	2021/22	2022/23



5. Performance Management - Information is power



- Condition Categories A, B, C, D
- Maintenance spend per m² (all)
- Maintenance Need per m² and by Priority 1, 2 and 3 (13)
- Planned/Responsive % (57/43)
- Energy/Water/CO₂ emissions
- Property Cost per m²
- Office Indicators
- Hours Usage
- Service Delivery/Suitability
- But – Base, Cost, Systems and Misinterpretation Benchmarking

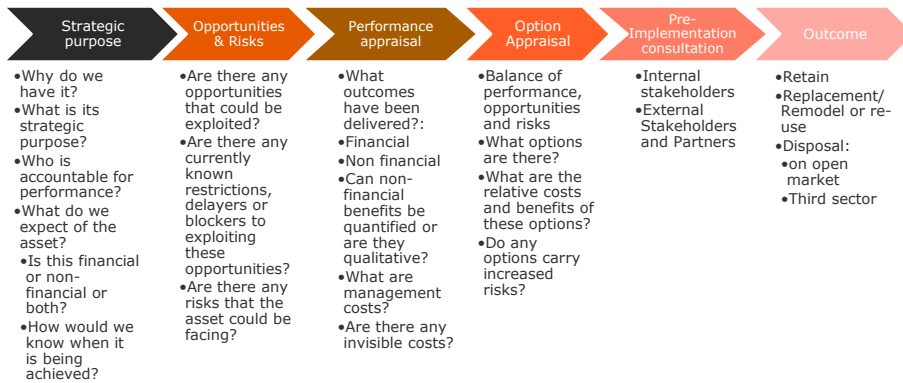


6. Asset Challenge



Asset Challenge

- If it stops still sell it – Focus on savings above all else
- The wrong incentives



7. Maintenance and Compliance



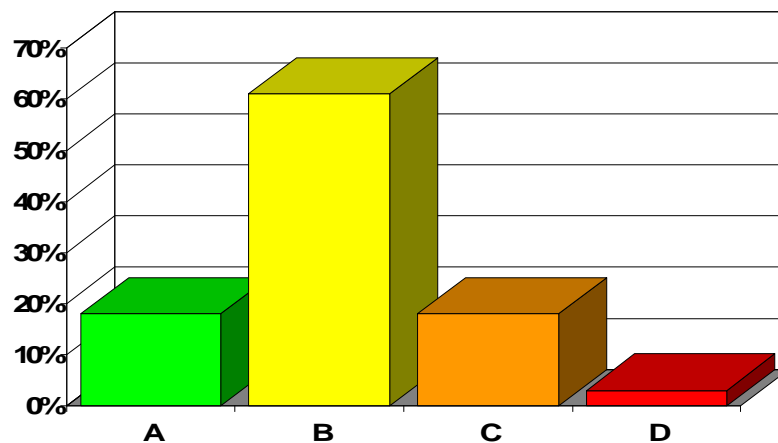
Maintenance

- Time for a moan
- How do you set your maintenance budgets?
- Condition Surveys Planned to reactive
- Bad prioritisation
- Accident waiting to happen?
- Year on year comparison?
- On a beach in the Bahamas?

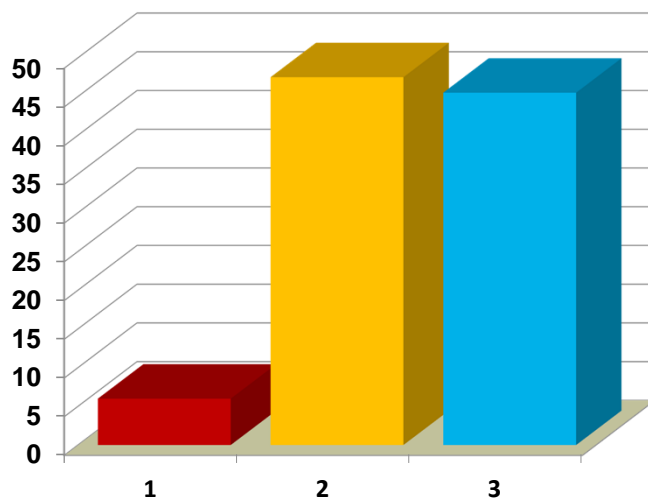
Condition is generally measured as

- A: Good** – Performing as intended and operating efficiently
- B: Satisfactory** – Performing as intended but showing minor deterioration
- C: Poor** – Showing major defects and/or not operating as intended
- D: Bad** – Life expired and/or serious risk of imminent failure

Rooms/Elements/Buildings/Assets?



- 1. Urgent works** that will prevent immediate closure of premises and/or address an immediate high risk to the health and safety of the occupants and/or remedy a serious breach of legislation.
- 2. Essential work** required within two years that will prevent serious deterioration of the fabric of services and/or address a medium risk to the health and safety of the occupants and/or remedy a minor breach of the legislation
- 3. Desirable work** required within 3 to 5 year that will prevent deterioration of the fabric or services and/or address a low risk to the health and safety of the occupants and/or a minor breach of the legislation.



- Backlog or required maintenance?
- Required maintenance is defined as “The cost to bring the property from its present state up to the state reasonably required by the authority to deliver the service and/or to meet statutory or contract obligations and maintain it at the standard”. This should exclude improvement projects but include works necessary to comply with new legislation e.g. asbestos and legionella

- Budgets based on an understanding of maintenance need through condition surveys
- Monitored to see effect on such need
- Building standards identified (maybe variable)

8. One Public Estate



Area Based Asset Management (The One Public Estate)

- Public Bodies coming together with a view to sharing assets.
- Statement of intent
- Joint Mapping
- Joint Strategies
- Joint Place based reviews
- Joint Property Vehicle

9. The Office Estate and the Impact of Buildings on what we do



- Space targets per person, per workstation
- FTE to desk rations
- Anyone, any desk
- Reduction in gross floor area \approx 20-39%
- Reduction in running costs \approx 20-30%
- Gross floor area per person \approx 8/6/4m²
- Reduced storage footprint \approx 50%
- Expand don't deliver?
- FM Solutions

- What gives you the first impression of a business?
 - How do buildings make you feel that you work or meet in?
 - What is a building in the public sector?
 - Now think about your own organisations?
-
- Buildings are not just bricks and mortar, they are part of what we do and how we do it.



Thoughts and closing remarks from the Chair



Event evaluation

Please complete the event evaluation form, and leave at our reception desk.



Thank you for participation

**Please hand in your badge on
your way out and we wish you
a safe journey home.**

