



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Wednesday 25 January 2017, 7.30 pm**

**Council Chamber, Fourth Floor, Easthampstead House, Bracknell**

### **To: The Governance & Audit Committee**

Councillor Allen (Chairman), Councillors Heydon, Leake, McLean, Ms Miller, Mrs Temperton, Thompson, Worrall

### **Independent Member**

David St John Jones

### **cc: Substitute Members of the Committee**

Councillors Mrs Hayes MBE, Hill, McCracken and Mrs McKenzie-Boyle

ALISON SANDERS  
Director of Corporate Services

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If you require further information, please contact: Hannah Stevenson  
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Published: 17 January 2017



**Governance & Audit Committee**  
**Wednesday 25 January 2017, 7.30 pm**  
**Council Chamber, Fourth Floor, Easthampstead House,**  
**Bracknell**

**AGENDA**

Page No

1. **Appointment of Vice-Chairman**

2. **Apologies for Absence**

To receive apologies for absence and to note the attendance of any substitute members.

3. **Declarations of Interest**

Members are requested to declare any disclosable pecuniary or affected interest in respect of any matter to be considered at this meeting.

*Any Member with a Disclosable Pecuniary Interest or an affected interest in a matter should withdraw from the meeting when the matter is under consideration and should notify the Democratic Services Officer in attendance that they are withdrawing as they have such an interest. If the Disclosable Pecuniary Interest is not entered on the register of Members interests the Monitoring Officer must be notified of the interest within 28 days.*

4. **Minutes - 21 September 2016**

To approve as a correct record the minutes of the meetings of the Committee held on 21 September 2016

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5. **Urgent Items of Business**

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

6. **Annual Audit Letter 2015/16**

To receive and note the Annual Audit letter for 2015/16.

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7. **Internal Audit Assurance Report**

To consider a report summarising Internal Audit activity during the period April to December 2016.

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8. **Treasury Management Report 2017/18 and 2016/17 Mid Year Review**

To consider a report seeking comment on the Council's Treasury Management Report before it is submitted to Council for approval.

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9. **Strategic Risk Management Update**  
To receive a report setting out the Council's Strategic Risk Register. 83 - 90
10. **Appointment of Local External Auditors**  
To receive a report updating on the new arrangements for the appointment of local external auditors. 91 - 176
11. **Establishment of Code of Conduct Panels**  
To receive a report to formalise the establishment of Code of Conduct Panels. 177 - 180

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**GOVERNANCE & AUDIT COMMITTEE**  
**21 SEPTEMBER 2016**  
**7.33 - 8.15 PM**

**Present:**

Councillors Allen (Chairman), McCracken, McLean and Thompson

**Also Present:**

Councillors McCracken

**Apologies for absence were received from:**

Councillor Heydon, Mrs Temperton and Worrall.

**13. Apologies for Absence**

Apologies were received from Councillors Heydon, Temperton and Worrall.

Councillor McCracken was acting as a substitute for Council Heydon.

**14. Declarations of Interest**

There were no declarations of interest.

**15. Minutes - 29 June 2016**

**RESOLVED** that the minutes of the meeting of the Committee held on 29 June 2016 be approved as a correct record and signed by the Chairman.

**16. Urgent Items of Business**

There were no urgent items of business.

**17. External Audit: Audit Results Report**

Helen Thompson of Ernst & Young introduced the Audit Results Report for the year ended 31 March 2016, which summarised the work carried out to discharge the statutory external audit responsibilities.

The 2015/16 audit was substantially complete and the Auditors expected to issue an unqualified opinion on the financial statements. No uncorrected misstatements had been identified and the audit results overall demonstrated that the Council had prepared its financial statements to a high standard.

Three audit risks had been identified during the planning phase of the audit: a risk associated with the valuation of property, plant and equipment (PPE), a risk relating to Better Care Fund accounting and a risk of management override. Within the audit procedures, the controls relevant to each risk had been assessed and then tested, which had led to assurance being gained.

Members were reminded of the change in the regulations for the financial close arrangements from the 2017/18 financial year. The time table for the preparation and approval of accounts would be brought forward to a draft accounts deadline of 31 May and Audit deadline would be 31 July. Future Committee meetings would need to be scheduled to reflect the new timeframe. Progress reports would be brought to future meetings.

**RESOLVED** that the Committee **NOTED** the Audit Results Report.

18. **Financial Statement 2015/16**

The Committee considered a report of the Borough Treasurer presenting the draft 2015/16 Financial Statements, subjected to audit by the External Auditors, Ernst & Young. The report summarised the key elements within the accounts and the findings of the audit. The Treasurer reported that he had signed the draft Statement of Accounts on 26 May 2016 and copies of the draft Financial Statements had been circulated to all members for feedback.

The Committee noted that this was the eighteenth consecutive year that the Council had spent within its budget.

The Committee noted the most significant variances which included an underspend on Waste disposal and a transfer into the Structural Changes Reserve and Transformation Reserve to fund the Council's Transformation Programme. It was also reported that General Fund Balance stood at £12.730m as of 31 March 2016, and £30m had been maintained in the Earmarked Reserves.

The Committee were informed that although the Vodaphone Business Rates Appeal had been resolved and refunds made, there was a separate issue still ongoing regarding Vodaphone's application to be put on the Central Business Rate's list. This was currently with the Minister to determine.

**RESOLVED** that the Committee:

1. Approves the Financial Statements for 2015/16 attached at Annexe A;
2. Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;
3. Authorises the Chairman of the meeting to sign and date the Letter of Representation set out in Annexe B.

19. **Review of Constitution - Standards**

The Committee considered a report which recommended changes to the Constitution relating to the Council's Standards Framework for approval by Council.

A Standards Framework Working Group was set up and met on three occasions between May and July 2016. It considered a report from the Borough Solicitor, which set out proposals for changes to the Standards Framework. These changes were agreed at the final meeting, subject to amendments, on the 6 July 2016.

The report covered the proposed the dissolution of the Standards Committee and an adoption of revised terms of references for Governance and Audit Committee to include Standard Issues. It also proposed an amended procedure for dealing with

Councillor Code of Conduct Complaints and sought approval for a procedure for dealing with dispensation requests by Councillors.

The Committee commented that they would benefit from an organisational diagram to show the procedure for dealing with Councillor Code of Conduct complaints.

The Independent Person would not be a voting member of the Panel, but it is a statutory requirement that they would be present at the hearing to advise the panel. A pool of Independent Members was currently being sought which would include two representatives from Town and Parishes.

The Committee asked for the following amendments to be made in Appendix B, Recommended Arrangements for Dealing with Councillor Code of Conduct Complaints:

- The use of “they” instead of “he/she” to be consistent throughout the report.
- 2.2 be amended to include “Voting Members” for the Quorum of the Hearing Panels.

Subject the aforementioned amendments it was **RESOLVED** that the Committee agreed the following recommendations for Full Council approval:

1. Agree to the dissolution of the Standards Committee and to the adoption of revised terms of reference of the Governance & Audit Committee to include consideration of Standards issues as set out in Appendix A
2. Approve the procedure for dealing with Councillor Code of Conduct complaints as set out in Appendix B
3. Approve the procedure for dealing with dispensation requests by Councillors who would otherwise be prevented from participating at meetings of the Council, Executive or Committee due to the existence of an Affected or Disclosable Pecuniary Interest as set out in Appendix C
4. Delegate to the Borough Solicitor the authority to make appropriate amendments to the constitution so as to give effect to its decisions in respect of (a), (b) and(c) above
5. Appoint David St John to fill the Independent Member vacancy on the Governance & Audit Committee arising from the resignation of the previous incumbent

## 20. **Review of Constitution - Planning**

The Committee considered a report recommending changes to the Constitution for approval by Council.

The report covered proposed changes that were suggested following a review of procedures for Planning Applications and Enforcement undertaken by Environment, Communities & Culture Overview and Scrutiny Panel and subsequently endorsed by the Executive. There had been seventeen recommendations made by the Overview and Scrutiny Panel but only two of the recommendations required Constitutional amendments, with the other recommendations being dealt with by the Chief Officer: Planning, Transport and Countryside.

The proposed changes would ensure that the Planning Committee would determine applications which had the highest level of public interest, ensuring effective use of the Committees time, and that the Planning Committee would determine applications made by Officers and Councillors who are involved with the planning process. This would ensure that planning applications would be considered in public with appropriate levels of public scrutiny and transparency.

The Committee requested the following amendment to be made to the Appendix under 2. Protocol for Members dealing with Planning Matters:

- “and above” to be included in the planning application submitted by a Council Chief Officer. This would ensure that Directors and Chief Executives were included and avoid any confusion that could occur.

Subject the aforementioned amendment it was **RESOLVED** that the Committee agreed the following recommendations for Full Council approval:

1. The Delegations of Chief Officer: Planning, Transport and Countryside set out in the Appendix to the report.
2. The protocol for Members in Dealing with Planning Matters Set out in the Appendix to the report.

21. **Any Other Business**

The Chairman thanked Alan Nash for all his service and hard work over the years and wished him well with his impending retirement.

**CHAIRMAN**



**TO: GOVERNANCE AND AUDIT COMMITTEE  
25<sup>TH</sup> JANUARY 2017**

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**ANNUAL AUDIT LETTER  
Chief Executive/Borough Treasurer**

**1 PURPOSE OF REPORT**

1.1 To receive the external auditor's Annual Audit Letter for 2015/16.

**2 RECOMMENDATION**

2.1 **To note the Annual Audit Letter 2015/16 at Appendix 1.**

**3 REASONS FOR RECOMMENDATION**

3.1 The Annual Audit Letter must be considered in public by those charged with governance. In Bracknell Forest this is the Governance and Audit Committee. However, given the Executive's overall responsibilities it is important that it also receives the report.

**4 ALTERNATIVE OPTIONS CONSIDERED**

4.1 None.

**5 SUPPORTING INFORMATION**

5.1 The external auditor (Ernst & Young) is required to provide the Council with an Annual Audit Letter (set out at Appendix 1). The letter summarises the findings from the 2015/16 audit, which comprises three main elements:

- the audit of the financial statements;
- reviewing the Council's Annual Governance Statement, and
- the external auditor's conclusion on the Council's arrangements to secure economy efficiency and effectiveness in its use of resources.

5.2 The external auditor has given an unqualified opinion on the Council's financial statements. An unqualified conclusion has also been given on the Council's arrangements for securing value for money.

5.3 The external auditors will attend the meeting of the Governance and Audit Committee to present the Annual Audit Letter 2015/16.

**6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

6.1 Nothing to add.

Borough Treasurer

6.2 Nothing to add.

Equalities Impact Assessment

6.3 There are no specific issues arising directly from this report.

Strategic Risk Management Issues

6.4 The Annual Audit Letter identifies the strategic financial risks facing the Council which are addressed through the Strategic Risk Register, Service Plans and the Council's financial planning process.

**7 CONSULTATION**

7.1 Not applicable.

Contact for further information

Stuart Mckellar, Borough Treasurer- 01344 352180  
Stuart.McKellar@bracknell-forest.gov.uk

# Bracknell Forest Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Bracknell Forest Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b> ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

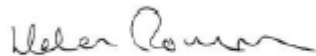
Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. However, we reported this fact to the NAO as required by the NAO group instructions.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 September 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the housing benefits claim.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.



Helen Thompson  
Executive Director  
For and on behalf of Ernst & Young LLP

Purpose





## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our September 2016 Audit Results Report to the 21 September 2016 meeting of the Governance and Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



# Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 10 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ on the 2015/16 financial statements; and
  - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ any significant matters that are in the public interest;
  - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We issued an unqualified audit report on 21 September 2016.

Our detailed findings were reported to the Governance and Audit Committee on 21 September 2016.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ reviewed accounting estimates for evidence of management bias; and</li> <li>▶ evaluated the business rationale for any significant unusual transactions.</li> </ul> <p>We carried out our tests as planned and this work found no evidence of management override in the 2015/16 financial statements.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements.</p> <p>The Council continues to engage Wilks Head and Eve to carry out the valuation of property, plant and equipment</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>▶ reviewing the Council's instructions to the valuer and assessing the reasonableness of the valuation assumptions and methodology; and</li> <li>▶ reviewing the proposed accounting entries and disclosures in the 2015/16 financial statements.</li> </ul>

assets. The use of external valuers could result in a change in estimation methodology and measurement, which may lead to material changes in asset valuations. To mitigate the risk, the Council will apply in-house expertise to land valuation, depreciation and any impairment reviews.

Our audit tests and procedures on the work of experts concluded that the external valuers valued the Council's assets in accordance with the required professional and statutory guidance, and that the bases for the valuations were consistent and materially correct.

We reviewed and tested the subsequent adjustments made by the Council to the PPE balances and confirmed that the gross value of the adjustments was below our identified materiality level. As such, the scope for material error was found to be minimal. The adjustments were made to allow for local valuation factors, and our work agreed that the basis for these adjustments was reasonable.

### **Better Care Fund (BCF) Accounting**

From 1 April 2015 BCF has been set up as a pooled budget between the Council and its NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.

Proper disclosure of the nature of all of these arrangements is important together with the accounting and disclosure implications arising from them in the Council's accounts. The risk is also increased when the audit arrangements are different between the CCGs and local government.

Our approach focussed on:

- ▶ developing our understanding of the contractual and operational arrangements; and
- ▶ gaining an understanding of the proposed accounting treatment and ensuring this is properly disclosed in your financial statements.

We carried out our audit procedures and found that the Council had performed a full analysis of the nature of the constituent Better Care Fund schemes, including whether the arrangements demonstrated joint control, lead commissioning, or an agency arrangement. Our work found that these were correctly accounted for within the Council's income and expenditure account.

The disclosure at Note 35 was made in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code), and only showed gross income and expenditure. However, the Council's analysis indicated that some of the pooled fund expenditure should be accounted for net, i.e. showing only the portion of expenditure that is representative of the Council's contribution, and additional information was added to Note 35 to show the split between the Council's and the CCG's accounts.

As such, we are satisfied that the accounting for the Better Care Fund is materially correct.

**Other Key Findings**

**Conclusion**

**NNDR appeals provision**

Due to significant uncertainty surrounding the outcome of the NNDR appeals in progress, there is a risk that the provision recognised in the accounts might be inappropriate and measured at an incorrect amount. While the risk of appeal is inherent to all business rate payers, it is particularly so where appeals are anticipated from large companies.

Our approach focussed on:

- ▶ gaining an understanding and assessing the reasonableness of the Council's methodology in estimating and planned provision in respect of rateable value appeals outstanding at the balance sheet date;
- ▶ considering both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumption made by the Council on the likelihood of success; and
- ▶ reviewing and relying on the work of any experts appointed by management to assist in this process.

As expected, there was one significant successful appeal during the year which meant that nearly £10 million of the business rates provision was utilised during the year.

Our audit testing in this area found that the subsequent year-end provision was prudent and reasonable, and had been prepared using materially accurate assumptions.



A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

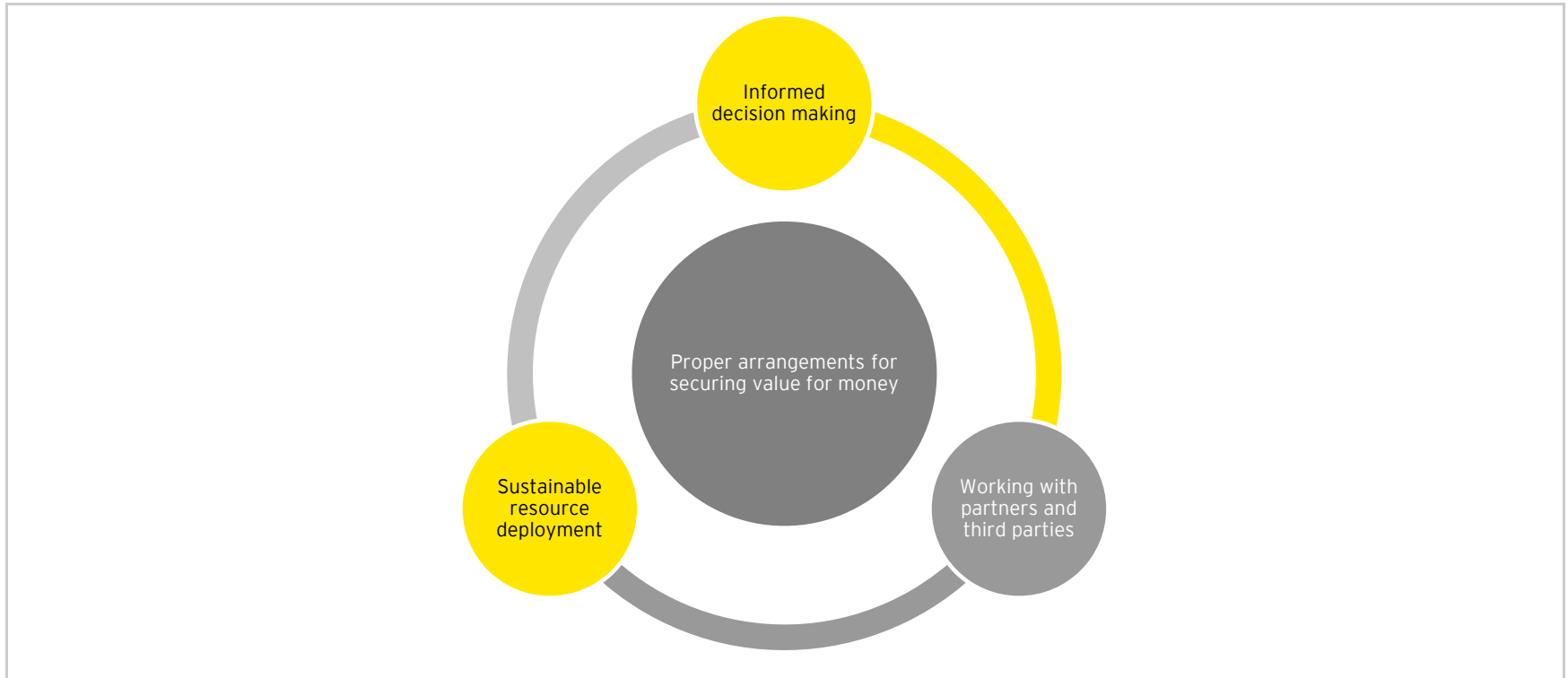
## Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We issued an unqualified value for money conclusion on 21 September 2016.

We identified the following significant risk in our audit plan:

Significant risk	Conclusion
<p>The impact of continuing reductions in funding from central government is an ongoing challenge for the Council, and a funding gap of £11.6 million has been identified for the financial year 2016/17.</p> <p>As at March 2016 the Council has plans to fully mitigate the gap through the use of £5.1 million general fund reserves, a 3.99% Council Tax increase and further savings, some of which have been identified through the Council's transformation Board.</p> <p>However, there remains an inherent significant risk in relation to the Council's ability to realise the savings required. Furthermore, the Council does not currently have a medium term financial plan to support the years beyond 2016/17 and this is work in progress as at March 2016.</p>	<p>The Council achieved an underspend of £2.7 million for the year ended 31 March 2016, increasing general balances by £1.8 million.</p> <p>The Council has closed the budget gap for 2016/17. However, the medium term financial plan, presented to Executive in July 2016, shows a £23 million cumulative budget gap up to March 2020. Bracknell Forest is an authority identified by the Government as being in a position to raise extra funds from council tax, which essentially means a comparatively lower settlement for the Council, and in turn means the gap will be harder to close without difficult decisions from the Council.</p> <p>The Council has opted to accept the Government's offer of a four year settlement. This offers certainty but also represents a withdrawal of Revenue Support Grant. To be eligible for the four year offer, the Council must produce an efficiency plan and submit this to the Department for Communities and Local Government by 14 October 2016. This plan is a combination of the Medium Term Financial Strategy and transformation programme, and was approved by the Executive on 14 September 2016.</p> <p>Therefore, the medium term outlook is very challenging and the Council needs to consider options such as council tax increases, use of reserve balances and contingencies, as well as wider efficiency and transformation savings.</p> <p>The Council will continue to work on its medium term budget proposals, and plans to discuss these further in December 2016. We will review these as part of our 2016/17 value for money conclusion and report our findings to you accordingly.</p>

## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack. However, we reported this fact to the NAO in line with the group instructions.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Governance and Audit Committee on 21 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## **Control Themes and Observations**

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><b>Highways Network Asset (HNA)</b></p>	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's balance sheet will be highly significant. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>
<p><b>EU referendum.</b></p>	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating. Any impact on the council's valuations if confidence in the wider UK property market falls is likely to affect the financial statements. Also, the valuation of council's defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need a response. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market</p>



Area	Issue	Impact
<p><b>Local appointment of auditors</b></p>	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this Bracknell Forest Council can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Council should consider whether it intends to opt into the appointed person scheme to appoint your auditors from 2018/19 or whether the Council should make its own arrangements following the legislative requirements.</p>
<p><b>Accelerated closedown</b></p>	<p>From the 2017/18 financial year, the deadline for preparing the Council's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the Council to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>

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**TO: TO: GOVERNANCE AND AUDIT COMMITTEE  
25th JANUARY 2017**

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**INTERNAL AUDIT ASSURANCE REPORT  
April –December 2016**

**(Head of Audit and Risk Management)**

**1 PURPOSE OF REPORT**

- 1.1 This report provides a summary of Internal Audit activity during the period April to December 2016. It covers work carried out by both internal audit contractors and the in-house team. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports

**2 RECOMMENDATION**

- 2.1 **The Governance and Audit Committee are asked to note the attached report.**

**3 REASONS FOR RECOMMENDATION(S)**

- 3.1 To ensure that the Governance and Audit Committee are aware of the internal audit work performed and conclusions reached.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 No alternative options available.

**5 SUPPORTING INFORMATION**

- 5.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.
- 5.2 The provision of Internal Audit services is largely outsourced to Mazars Public Sector Internal Audit. Mazars are responsible for delivering approximately two thirds of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2016. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham and Reading Council's internal audit teams under an agreement under Section 113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

**6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

6.1 Nothing to add.

Borough Treasurer

6.2 There are no direct financial implications arising from the report. The work of Internal Audit is key to fulfilment of the section 151 responsibilities by identifying weaknesses in internal control arrangements that can then be rectified

Equalities Impact Assessment

6.3 Not applicable.

Strategic Risk Management Issues

6.4 Internal Audit provides assurance on the Council's control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance

Other Officers

6.5 Not applicable.

**7 CONSULTATION**

7.1 Not applicable.

Background Papers

Annual Internal Plan 2016/17  
Strategic Risk Register

Contact for further information

Sally Hendrick – 01344 352092  
[sally.hendrick@bracknell-forest.gov.uk](mailto:sally.hendrick@bracknell-forest.gov.uk)



# **HEAD OF AUDIT AND RISK MANAGEMENT REPORT**

**APRIL – DECEMBER 2016**

## 1. BACKGROUND

- 1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to “maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.” This report summarises the activities of Internal Audit for the period April to December 2016 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

## 2. INTERNAL AUDIT

- 2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:
- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council’s interests.
  - Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor’s audit of the annual accounts.
  - Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities
  - Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.
- 2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council’s operations. The different categories of recommendation and assurance opinion are set out in the following tables.

### Recommendation Classifications

PRIORITY	DESCRIPTION
1	Essential – recommendation addresses a fundamental control weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk that must be brought to the specific attention of senior management and resolved.
2	Important – recommendation addresses weakness in the design of controls or inconsistency in compliance with controls putting the achievement of systems objectives at risk that should be resolved by management in their area(s) of responsibility.
3	Best practice – Recommended best practice to improve overall control

Assurance Opinion Classifications

ASSURANCE LEVEL	DEFINITION
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

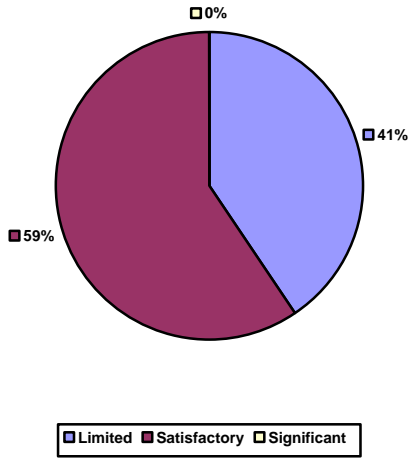
- 2.3 Internal Audit provides the relevant Director and the Borough Treasurer with copies of the draft report where a limited (or no) assurance opinion is given. This ensures that the senior management and the Section 151 Officer are informed at the earliest opportunity of any potential significant weaknesses or problem areas. Where satisfactory or significant assurance opinions are given, Directors receive copies of the final agreed report.

### 3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

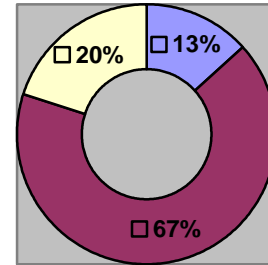
- 3.1 The Annual Internal Audit Plan for 2016/17 was considered and approved by the Governance and Audit Committee on 30<sup>th</sup> March 2016. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, IT audit is undertaken by TIAA Ltd and , 17 reviews will be audited under the Section 113 arrangement with Wokingham and Reading Borough Councils' Internal Audit Teams and 6 reviews and grants are scheduled to be audited in house.
- 3.2 During the period April to December 2016, 3 grants were certified, 8 memos and reports without an opinion were finalised 30 reports were finalised, 7 had been issued in draft awaiting management responses and in 12 cases audit work was in progress. A summary of performance to date is set out below. Details on the status and outcome of all audits are attached at Appendix A.

**SUMMARY OF OUTCOMES APRIL – DECEMBER 2016**

**ASSURANCE OPINIONS**



**ANALYSIS OF RECOMMENDATIONS**



■ Priority 1 ■ Priority 2 □ Priority 3

■ Limited ■ Satisfactory □ Significant

ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2016	FINAL AND DRAFT 2015/16
Significant	-	3
Satisfactory	22	52
Limited	15	15
<b>Total for Audits Including an Opinion</b>	<b>37</b>	<b>70</b>
Grant Claim Certifications	3	12
Memos/Reports	8	10
<b>Total</b>	<b>48</b>	<b>92</b>

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
<b>April to December 2016</b>	12	12	78%
<b>2015/16</b>	31	31	80%

3.3 As noted above and at Appendix A, delivery against the planned programme is on track with the bulk of quarter 1- 3 audits finalised, issued in draft, or already in progress. The majority of assurance opinions given were satisfactory.



**Significant Control Issues**

- 3.4 Audits which have generated a limited assurance opinion will generally be revisited in 2017/18, to ensure successful implementation of agreed recommendations. The key weaknesses identified during audits with a limited assurance opinion to date are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
COUNCIL WIDE AUDITS	<p><b><u>OFFICERS EXPENSES</u></b> The audit identified an unexplained weakness in the IT system which allowed one officer to authorise her own expenses. Audit was advised that this will be tested on implementation of Agresso version MS5.</p>
	<p><b><u>BUDGET SAVINGS</u></b> Limited due to targets were not being met in respect of one key area.</p>
CHILDREN, YOUNG PEOPLE AND LEARNING	<p><b><u>SCHOOLS</u></b> Limited assurance opinions were given on five school audits during April to December 2016. Senior officers from the Education Authority are providing support to the Schools to enable them to address weaknesses in their control environments and the schools will be re-audited during 2017/18 if these schools have not become academies. It should be noted that none of the issues raised in the school audits are sufficiently serious for the Council to consider serving a formal notice of concern to the governors. The key areas of concern at each school was as follows:</p> <p><b><u>Ascot Heath Infant School</u></b> Weak control over the incurring, receipting and authorisation of expenditure.</p> <p><b><u>Uplands Primary School</u></b> Weak control over the incurring, receipting and authorisation of expenditure.</p> <p><b><u>Winkfield St Marys School</u></b> Weak control over expenses and over the incurring, receipting and authorisation of expenditure.</p> <p><b><u>Easthampstead Park Secondary</u></b> Weak control over authorisation of expenditure, ring fenced monies for bursaries being inappropriately transferred into the main school budget and weaknesses in the financial procedures in respect of authorisation limits and authorisation of expenditure.</p> <p><b><u>Great Hollands Primary</u></b> Bank account not being reconciled to the latest bank statements.</p>
	<p><b><u>PROCUREMENT IN SCHOOLS</u></b> The schools audited demonstrated a high level of non compliance with Contract Standing Orders and the Procurement Manual,</p>

	<p>standard terms and conditions not being applied, weaknesses in the management of consultants working on procurements for schools, a need to clarify requirements in respect of recruitment and agency procurement and a need to clarify which mandatory parts of the Procurement Manual apply to schools. The Head of Procurement will be attending the Chair of Governors meeting in January in order to raise awareness of procurement requirements with Governing Bodies.</p>
<p><b>CORPORATE SERVICES</b></p>	<p><u>HOME TO SCHOOL TRANSPORT</u> Weaknesses were identified in controls over Disclosure and Barring Service (DBS) checks on drivers and escorts. Audit has been advised that action will be taken to tighten procedures and facilitate improved communication on information returned on DBS checks.</p>
	<p><u>CONSTRUCTION AND MAINTENANCE</u> This was re-audited in quarter 1 following the limited assurance opinion in 2015/16. A limited assurance opinion was given again in 2016/17 due to errors in billing by the reactive maintenance contractor which had not been detected by officers and lack of supporting documentation and errors in billing by other contractors. A further audit of this area will now be carried out in the last quarter of 2016/17.</p>
	<p><u>CRM SYSTEM</u> Weaknesses in control over super user and supplier user access rights and also individuals who had left the Council who still had access to the system. Supplier and super user access rights are being addressed with the supplier and in future the list of users and administrators will be reviewed every 6 months by the CRM Development Manager.</p>
	<p><u>DISASTER RECOVERY</u> The disaster recovery documentation is out of date and no longer relevant. Audit has been advised that ICT will be reviewing and updating all documentation.</p>
	<p><u>BACK UPS</u> The current list of servers is out of date and cannot be attributed to current back up jobs. Audit has been advised that action is already underway to address these weaknesses.</p>
<p><b>ENVIRONMENT CULTURE AND COMMUNITIES/ CORPORATE SERVICES</b></p>	<p><u>HIGHWAYS NETWORK ASSETS</u> This audit was carried out to check the preparedness for changes to the CIPFA Code of Practice on Local Authority Accounting requiring the Council to measure highways infrastructure at Depreciated Replacement Cost (DRC) compared to the current requirement for measuring these assets at depreciated historic cost. The base data for the accounts will be provided by officers in Environment, Culture and Communities (ECC). The audit identified a need to improve understanding of the requirements amongst ECC staff and develop procedures for accurately recording expenditure in line with the new accounting requirements. A joint</p>

	workshop has already been held by Corporate Finance and ECC officers to clarify requirements.
<b>ADULT SOCIAL CARE , HEALTH AND HOUSING</b>	<u>MENTAL HEALTH</u> Weaknesses in completion of initial six weekly reviews of care packages and also in the completion of annual reviews. Audit was advised that the Reviewing Team would be taking steps to ensure the reviews are up to date.

### **Update of 2015/16 Limited Assurance Opinions**

- 3.5 An update on the limited assurance opinions given in 2015/16 is shown at Appendix B. This shows that as at December 2016, follow up audits had been finalised in 6 cases and in 5 out of 6 cases this had resulted in a satisfactory opinion. In one case a limited opinion was given again and this is detailed in section 3.4.

### **Quality Assurance and Improvement Programme**

- 3.6 As shown above in section 3.2, 100% of the client questionnaires indicated the auditees were satisfied with the service. All grants were certified in accordance with Government departments' deadlines. In 78% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

## **4. RISK MANAGEMENT**

- 4.1 Between April and December 2016, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team (CMT) and by the Governance and Audit Committee in June 2016. A review of progress on actions to address strategic risks was carried out in Quarter 3. Directorate risk registers continue to be monitored regularly at Departmental Management Teams.

## **5. COUNTER FRAUD ACTIVITIES**

### **Fraud Awareness Training**

- 5.1 During 2016/17 we have commenced a programme of counter fraud training. The first fraud awareness sessions were delivered by a specialist fraud investigator to teams in Adult Social Care, Health and Housing during quarter 2: The sessions were tailored to the specific fraud risk areas for individual teams. The next round of training will be delivered to senior managers in Environment, Culture and communities in February 2017.

### **National Fraud Initiative (NFI)**

- 5.2 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to

participate in this. The core mandatory data for submission for the 2016 round was:

- payroll
- pensions
- trade creditors
- housing benefits
- Council Tax
- electoral register
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- insurance claimants
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)
- housing waiting list

Data was submitted to the Audit Commission during 2016. Matches will be received back in 2017 for investigation.

### **Benefits Investigations**

- 5.3 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. Under the new arrangements, the Welfare Service now passes cases of overpayments in excess of £2k to SFIS for investigation where fraud is suspected. During the period April 2016 to November 2016 the Service passed 28 cases across to SFIS. During the last financial year 76 cases were referred of which outcomes are coming through this financial year. We have so far been notified of 3 prosecutions and 2 administrative penalties.
- 5.4 From 1st April 2014, if a claimant is notified that they have been overpaid Housing Benefit by £250 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April 2016 and November 2016 the service applied 265 Civil Penalties. From April 2016 Bracknell Forest Council can now apply penalties in respect of Council Tax. Between April 2016 and November 2016 the service applied 84 Council Tax Penalties.
- 5.5 DWP carries out an exercise matching HM Revenue and Customs Real Time Information (RTI) against data held on six social security benefits; (Income Support, Jobseekers Allowance, Housing Benefit, Employment and Support Allowance, Pension Credit and Carers Allowance) to identify cases where claimants have either failed to declare or have under declared earnings and Non State Pension. The project commenced in October 2014 and has resulted in referrals being issued to local authorities where DWP has information that earnings or Non State Pension have not been correctly declared for the purposes of Housing Benefit. From April 2016 to November 2016 Bracknell Forest Council received 771 referrals of which approximately

47.6% of referrals have resulted in either a reduction or increase to Housing Benefit and approximately 37.2% in a reduction or increase to Council Tax Reduction. The Service also made the decision to opt in to optional RTI referrals for local authorities on a monthly basis starting June 2016. These are delivered with the existing RTI.

- 5.6 The Fraud and Error Reduction Incentive Scheme (FERIS) was launched on 24 November 2014. Local authorities could opt into the scheme and bid for funding. FERIS is an incentive scheme that offers a financial reward to local authorities that find reductions to Housing Benefit entitlement as a result of claimant error or fraud. It is for each local authority to decide how best they can identify additional changes to entitlements resulting from fraud and error. From April 2016 to November 2016 the Council has carried out targeted campaigns to 400 households in which approximately 81.3% has resulted in either a reduction or increase to Housing Benefit and approximately 79.3% has resulted in either a reduction or increase to Council Tax Reduction.

### **Single Person Discount**

- 5.7 In order to identify potential mis-claiming of Council Tax Single Person Discount (SPD), the Revenues team procured external consultants to carry out a data matching exercise. The exercise matched credit records to households claiming SPD to highlight cases where there appeared to be more than one occupant at the property. In such cases, letters were sent to the recipient of the SPD to query if they were the sole occupier. The exercise has resulted in SPD being removed from 438 households who were not entitled to the discount which resulted in a reduction of £153k in SPD awards.

### **Other Potential Irregularities**

- 5.8 In September 2015, Adult Social Care informed the Police about potential abuse of a client's monies by a relative. This had initially been highlighted due to the follow up of debts for contributions to care costs. Adult Social Care provided a detailed package of evidence for the Police enabling them to arrest the relative. At the subsequent court case in July 2016 a Compensation Order was awarded to Bracknell Forest Council for £15,715.50.
- 5.9 In June 2016 Audit were advised by Adult Social Care of whistleblowing by an ex employee of a care provider who alleged that call records were being falsified to overstate hours being delivered by the provider. This was investigated by a Counter Fraud Investigator who concluded that on the balance of probabilities it would appear that records had been manipulated. The over charge was estimated at approximately £16k for the 6 month period investigated. The supplier has ceased to provide care to Bracknell Forest and steps are now being taken to offset some of the monies owed to the Council against final balances due to the supplier.

**2015/16 AUDITS**

\* Draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date Draft Report	Key Indicator Met *	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
<b>CORPORATE SERVICES</b> Home to School Transport	1/2/16	26/4/16	No			X		1	2	1	Final
<b>ASCHH</b> Mental Health	14/3/16	20/5/16	No			X		2	6		Final
Housing Rents and Deposits	1/3/16	22/7/16	No		X				2	3	Final

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**2016/17 AUDITS**

**COUNCIL WIDE AUDITS**

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
<b>GRANTS</b> Troubled Families (September)	15/8/16	7/7/2016	N/A	N/A grant certification							Final

Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Bus Subsidy	23/8/16	15/9/16	N/A	N/A grant certification							Final
Integrated Transport Block Allocation	5/9/16	22/9/16	N/A	N/A grant certification							Final
<b>COUNCIL WIDE AUDITS</b> Council wide procurement - waivers	8/8/16	17/10/16	Yes		X				5		Final
Officer expenses	5/5/16	2/6/15	Yes			X		1		3	Final
Budget savings	8/9/16	11/11/16	Yes			X		2	3		Draft issued
Transformation Programme											Deferred to 17/18
Business Continuity	31/5/16	7/7/16	Yes	No opinion given. Seven recommendations raised.							Final
Grey Fleet Checks	2/11/16	21/11/16	Yes	Memo issued with no opinion but 2 recommendations raised							Final
<b>COUNTER FRAUD</b> Declarations of Interest (Fraudit)											In progress
Procurement (Fraudit)	15/11/16	21/11/16	No		X				3	1	Draft issued
<b>CORPORATE SERVICES</b> Creditors											Qtr 4
Debtors	3/10/16	24/11/16	No		X				6	1	Draft issued
Payroll and pre employment	31/10/16										In progress

Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
checks											
Construction and Maintenance	23/5/16	4/8/16	Yes			X		2	9	1	Final
Cash Management	10/10/16										In progress
Council Tax	24/10/16										In progress
Business Rates	24/10/16										In progress
<b>IT AUDIT</b> Disaster recovery	8/8/16	16/11/16	No			X		1	2	2	Final
Back ups	1/8/16	17/10/16	No			X		1	1	2	Final
CRM -	5/8/16	4/11/16	No			X		3	8	2	Final
AGRESSO upgrade											Deferred to 2017/18t
<b>ECC</b> Finance operations											Audit cancelled
Coral Reef Project											Qtr 4 audit
Downshire Golf											Qtr 4 audit
Easthampstead Park Conference Centre	4/10/16										In progress
South Hill Park											Deferred to 2017/18
Parks and Countryside	3/10/16	24/11/16	Yes		X				7	2	Final
Tree Services											Qtr 4 audit
Highways Adoptions	7/9/16	24/11/16	Yes		X				9	2	Final
New Chapel project											Deferred to 2017/18t



Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
LED works	20/6/16										In progress
Highways Network Assets	25/7/16	1/9/16	Yes			X		2	3	2	Final
Waste Collection	5/8/16	20/9/16	Yes		X				2	4	Final
<b>IT AUDITS CONFIRM</b>											Qtr 4 audit
<b>COUNTER FRAUD</b> Leisure Cash Spot Checks											Qtr 4 audit
<b>CYPL</b> Binfield Learning Village											Qtr 4 audit
Pupil Places	26/9/16										In progress
Early years	12/9/16		Yes		X				3		Final
Info Security in Schools – Follow Up											Qtr 4 training
Procurement in Schools- overall report	19/4/16	22/7/16	Yes			X		5	3	1	Final
Procurement in Schools. Kennel Lane	19/4/16	15/7/16	Yes	Memo issued with no opinion				3	6	1	Final
Procurement in Schools- Sandhurst	19/4/16	15/7/16	Yes	Memo issued with no opinion				1	8	2	Final
Procurement in Schools- Easthampstead Park	19/4/16	22/7/16	Yes	Memo issued with no opinion				7	4	1	Final
Procurement in Schools-	19/4/16	15/7/16	Yes	Memo issued with no opinion				2	6	2	Final

Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Edgebarrow											
Procurement in Schools- Harmanswater	19/4/16	15/7/16	Yes	Memo issued with no opinion				2	7		Final
Procurement in Schools- Garth Hill	19/4/16	15/7/16	Yes	Memo issued with no opinion				3	4		Final
Ascot Heath Infant	21/4/16	25/5/16	Yes			X		1	7	4	Final
College Hall Pupil Referral Unit	20/6/16	22/7/16	Yes		X				7	1	Final
College Town Junior											Qtr 4 audit
Crowthorne CE Primary	9/5/16	1/6/16	Yes		X				6		Final
Easthampstead Park Secondary	19/9/16	21/10/16	Yes			X		3	9	1	Draft issued
Great Hollands Primary	3/10/16	19/10/16	Yes			X		1	10	3	Final
Jennet's' Park (Ltd 15/16)	11/10/16	21/10/15	Yes		X				6	2	Draft issued
Kennel Lane Special School (Ltd 15/16)	17/10/16		Yes						9	1	Final
Meadow Vale Primary	26/4/16	25/5/16	Yes		X				9	2	Final
New Scotland Hill											Qtr 4 audit
Pines Primary (Ltd 15/16)	7/11/16	18/11/16	Yes		X				6	1	Draft issued
Sandhurst Secondary	26/9/16	21/10/16	Yes		X				7	2	Final
Sandy Lane Primary (Ltd 15/16)											Qtr 4 audit
St Michael's E'hampstead CE											Qtr 4 audit

Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Prim (Ltd 15/16)											
Uplands Primary	3/5/16	25/5/16	Yes			X		1	6		Final
Whitegrove Primary											Qtr 4 audit
Wildridings Primary											Qtr 4 audit
Winkfield St Mary's	18/4/16	17/6/16	Yes			X		2	7	1	Final
SEND	31/10/16										In progress
Education Psychology	6/7/16	9/8/16	Yes		X				6		Final
NEET Reduction	17/5/16	20/6/16	Yes		X				7		Final
Residential placements	8/11/16										In progress
Recruitment and Retention	28/9/16	20/12/16	No		X					1	Draft issued
<b>CYPL IT AUDITS</b> Mosaic											Qtr 4 audit
<b>ASCHH</b> Better Care Fund- CONTROCC											Qtr 4 audit
Financial Assessments and Benefits Checks	15/8/16	30/8/16	No		X					4	Final
Bridgewell Unit	14/11/16										In progress
Reablement and Hospital Discharge	7/11/16										In progress
Learning Disability											Qtr 4 audit
Learning Disability Provider service at Waymead including Breakthrough	13/6/16	5/8/16	Yes		X				11	10	Final

Unrestricted

Audit	Start Date	Date of Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Housing and Council Tax Benefits	5/12/16										In progress
Homelessness	13/6/16	22/7/16	Yes		X				5	1	Final
Supporting people											Deferred
Discretionary Housing Payments and Social Fund Payments											Qtr 4 audit
<b>ASCHH IT AUDIT</b> Abritas upgrade	12/7/16	23/9/16	Yes		X				4	2	Final

## FOLLOW UP OF LIMITED ASSURANCE AUDIT REPORTS

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION	UPDATE AS AT 31/12/16
<b>COUNCIL WIDE AUDITS</b>	COUNCIL WIDE PROCUREMENT	Re-audited in quarter 2 and a satisfactory opinion given.
<b>ADULT SOCIAL CARE, HEALTH AND HOUSING</b>	MENTAL HEALTH	To be followed up in quarter 1 of 2017/18
<b>CORPORATE SERVICES</b>	PAYROLL AND PRE EMPLOYMENT CHECKS	Currently being re-audited.
	BUSINESS RATES	Currently being re-audited.
	CREDITORS	To be re-audited in quarter 4.
	HOME TO SCHOOL TRANSPORT	To be followed up in quarter 1 of 2017/18
	CONSTRUCTION AND MAINTENANCE	Re-audited in quarter 1 and a limited assurance opinion given again. See section 3.4.
<b>CHILDREN, YOUNG PEOPLE AND LEARNING-SCHOOL AUDITS</b>	ST MICHAEL'S EASTHAMPSTEAD	To be re-audited in quarter 4.
	SANDY LANE PRIMARY)	To be re-audited in quarter 4.
	SANDY LANE PRIMARY SCHOOL (SCHOOL CENSUS AUDIT)	To be re-audited in quarter 4.
	JENNETT'S PARK PRIMARY SCHOOL	Re-audited in quarter 3 and a satisfactory opinion given.
	SANDHURST SECONDARY SCHOOL	Re-audited in quarter 3 and a satisfactory opinion given.
	KENNEL LANE	Re-audited in quarter 3 and a satisfactory opinion given.
	THE PINES	Re-audited in quarter 3 and a satisfactory opinion given.
	COLLEGE TOWN JUNIORS	To be re-audited in quarter 4.
<b>ENVIRONMENT, CULTURE AND COMMUNITIES</b>	EASTHAMPSTEAD CONFERENCE CENTRE	Currently being re-audited.

## FOLLOW UP OF 2015/16 RECOMMENDATIONS

Audit	Recommendations			Outcome
	Priority			
	1	2	3	
Complaints Procedure		4	2	1 finding implemented and 5 findings in progress
Capita ONE – Education system application audit		4		All actioned
Registration Services		1	2	Recommendation 3 now implemented therefore all recommendations now implemented.
Electoral Roll		4	1	All implemented
Fleet Management including Fuel Cards		8	1	All implemented apart from 1 partially implemented recommendation on license checks under the Driving to Work Policy
Members expenses		5	4	All implemented
Crown Wood census		1	1	All implemented
Crown Wood		9	2	All implemented
Holly Spring Junior		8	1	All implemented
Warfield		10	2	Nine implemented and three in progress.
Wooden Hill		7	2	Five recommendations implemented and four are work in progress.
School Census-St Michael's Easthampstead		1	1	All implemented
Direct payments - Children's		1	1	All recommendations implemented
Fostering		2	4	5 implemented 1 in progress
Imprests in Schools		4		In progress.
Services to Schools		4		1 completed, 2 partially implemented and one recommendation not yet due for implementation
School Improvement Programme		7	2	8 completed and one still in progress
Direct Payments (Ltd 14/15) - Adults		1	1	All recommendations implemented
Highways Network management		6	1	4 recommendations implemented, 1 not implemented and 2 in progress
CIL		9	6	9 recommendations implemented 6 recommendations in progress
Development Control		5	3	6 findings implemented, 2 not implemented and 1 in progress
Electronic Monitoring and Billing		7	3	All implemented
Contracting		3		All implemented
Brokerage		13	1	All implemented
Emergency Duty Team		2	1	Two in progress

**TO: GOVERNANCE AND AUDIT COMMITTEE  
25 JANUARY 2017**

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## **TREASURY MANAGEMENT REPORT 2017/18 AND 2016/17 MID-YEAR REVIEW (Borough Treasurer)**

### **1 PURPOSE OF DECISION**

- 1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.
- 1.5 This report seeks to achieve both these requirements of updating Members on progress in 2016/17 and to review the Treasury Management Report for 2017/18.

### **2 RECOMMENDATIONS**

- 2.1 **That the Committee consider and review the Mid-Year Review Report.**
- 2.2 **That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.**
- 2.3 **That the Committee review the Treasury Management Report for 2017/18 prior to its approval by Council.**

### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The reasons for the recommendations are set out in the report.

### **4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress

of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

## **5 SUPPORTING INFORMATION**

### **Mid-Year Review**

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2016/17
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2016/17
- A review of compliance with Treasury and Prudential Limits for 2016/17

### **Economic Update**

5.2 UK GDP growth rate in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth has been fairly robust at +0.6% q/q, +2.2% y/y in quarter 3 of 2016 to confound the pessimistic forecasts by the Bank of England in August and by other forecasters, which expected to see near zero growth during 2016 after the referendum. Prior to the referendum, the UK economy had been facing headwinds for exporters from the appreciation of sterling against the Euro plus weak growth in the EU, China and emerging markets, and the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, there was then a sharp recovery in confidence and business surveys and the fall in the value of sterling has had a positive effect in boosting manufacturing in the UK due to improved competitiveness in world markets.

5.3 The Bank of England meeting on 4th August addressed its forecast of a slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report cut the forecast for growth in 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. While the MPC was prepared to cut Bank Rate again by the end of 2016, Carney also warned that the Bank could not do all the heavy lifting and suggested that the Government would need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on November 23 and which he duly delivered.

5.4 The robust growth in quarter 3 of +0.6%, plus forward indicating business surveys also being very positive on growth, caused the MPC in November to pull back from another cut in Bank Rate. The November Inflation Report also included a forecast for inflation to rise to around 2.7% in 2018 and 2019, well above its 2% target, due to a sharp rise in the cost of imports as a result of the sharp fall in the value of sterling after the referendum. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth,



especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

### Treasury Management Strategy Statement Review

- 5.5 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by the Council on 24th February 2016. There are no policy changes to the TMSS.

### Capital Expenditure

- 5.6 The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed by Full Council. Any projected overspends will be addressed before the end of the financial year.

Department	Approved Budget 2016/17 £'000s	Cash Budget 2016/17 £'000s	Estimated Out-turn 2016/17 £'000s	Cash Budget 2017/18 £'000s	(Under) /Over Spend £'000s
Adult Social Care, Health & Housing	10,808.8	10808.8	7,679.0	0	0
Children, Young People and Learning	42,561.4	21,492.6	5,427.7	21,068.8	0
Council Wide	10,998.8	4,930.0	2,379.9	6,068.8	-86.4
Corporate Services	4,903.8	4,697.3	4,511.7	206.5	-147.2
Environment, Culture & Communities	31,228.7	24,751.8	10,317.7	6,476.9	6.4
<b>TOTAL CAPITAL PROGRAMME</b>	<b>100,501.5</b>	<b>66,680.5</b>	<b>30,316.0</b>	<b>33,821</b>	<b>(227.2)</b>

### Review of Investment Portfolio 2016/17

- 5.7 The Council held £17.091m of investments as at 31 December 2016 and the investment portfolio yield for the first nine months of the year is 0.42% against a benchmark (Local Authority 7-Day Rate) of 0.24%.

Investment	Maturity	Amount (£)	Average Rate (%)
<b>Money Market Funds</b>			
Standard Life Liquidity Fund	1 Day	2,797,000	0.43
Black Rock Sterling Liquidity	1 Day	100,000	0.39
Federated Prime Rate	1 Day	6,997,000	0.43
Goldman Sachs	1 Day	100,000	0.36
Aberdeen Liquidity	1 Day	6,997,000	0.44
Deutsche Managed Sterling Fund	1 Day	100,000	0.34
Total Investments		<b>17,091,000</b>	

- 5.8 The 2016/17 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. However the cut in interest rates to 0.25% by the Bank of England in August 2016 following the result of the European Referendum resulted in short-term investment rates falling to approximately 0.4% limiting the interest earned on investments.
- 5.9 However cash balances remain significantly on the upside largely as a result of the delay to some of the Council's major capital schemes. This enabled the Council to make a significantly larger pre-payment of the annual Pension liability than had been budgeted for. By making a one-off payment at the beginning of the year, rather than 12 equal instalments, the Council receives a discount of almost 3% - generating

additional income of £223,000. In addition to this, the positive cash-flow over the first 9 months of the year will generate additional interest of approximately £180,000. This additional income has been reported in the Council's monthly budget monitoring reports. This is a one-off gain as cash resources will reduce as capital schemes complete.

### **Compliance with Treasury and Prudential Limits for 2016/17**

- 5.10 The Borough Treasurer can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2016/17 and no changes to these limits are proposed for the remaining 3 months.

### **Treasury Management Report 2017/18**

- 5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.
- 5.12 The attached Treasury Management Report 2017/18 (annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 13 December 2016 and outlines the Council's Prudential Indicators for 2017/18 to 2019/20 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 14 February 2017.
- 5.13 The Bank Rate (set monthly by the Bank of England) remained at 0.5% until the action taken by the Bank of England to settle financial markets following the EU Referendum result in June 2016. Interest rates were cut to 0.25% and markets expected a further reduction to 0.10% by December 2016 based on the projections provided by the Bank of England in the November Inflation report. The Treasury Management Report approved by Executive in December was based on these assumptions.
- 5.14 However, economic statistics since late November have indicated stronger growth than the MPC expected in August; also, inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since early August. As such markets are no longer factoring in a further cut at this stage and expectations are for rates to remain at .025% for an increased period of time. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects already adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.5% is not tentatively expected until quarter 2 2019, after negotiations have been concluded (based on the Government's latest plans). However if strong domestically generated inflation were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

5.15 This change in forward projections of interest rates (highlighted above) is reflected in the Treasury Management Report attached, which has now been updated since it was initially published in December 2016. This is however a relatively small change and has not substantially affected long-term borrowing costs that the Council may face over the next three years – as such there is no need at present to amend any of the figures included within the Council’s original budget proposals in relation to investment income or debt costs. However given the uncertain economic conditions over the next 2-years these will be regularly reviewed and reported on through the Council’s budget monitoring processes.

## 6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

### Borough Solicitor

6.1 None.

### Borough Treasurer

6.2 The financial implications are contained within the report.

### Equalities Impact Assessment

6.3 None.

### Strategic Risk Management Issues

6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council’s treasury management activities

## 7 CONSULTATION

### Principal Groups Consulted

7.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

### Background Papers

None

### Contact for further information

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## TREASURY MANAGEMENT REPORT

- 1.1 The Local Government Act 2003 requires the Council to “have regard to” the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
- 1.2 This report outlines the Council’s prudential indicators for 2017/18 – 2019/20 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
- The reporting of the prudential indicators setting out the expected capital activities at Annex A(i) (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
  - The Council’s Minimum Revenue Provision (MRP) Policy at Annex A(ii), which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
  - The Treasury Management Strategy Statement which sets out how the Council’s treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, set out in Annex A(iii), the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.
  - The Annual Investment Strategy which sets out the Council’s criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the DCLG Investment Guidance and is shown in Annex A(iv).
- 1.3 There are few changes between this report and that presented last year. The following highlights are noted to aid comparison
- The Council’s primary investment objectives are the safeguarding of its principal whilst ensuring adequate liquidity. As global economies emerge from very uncertain times the Council will continue to use the highest quality counterparties and maintain short-duration maturities of less than 12 months. As such there are no changes to the Council’s Investment Criteria from the previous year.
  - Interest rates are unlikely to return to their pre-crisis level of 5% in the foreseeable future. Indeed interest rates are unlikely to rise above 1% in the next 24 months. As such the Council’s rate of return on investments is unlikely to be materially impacted by interest rate changes in the next 12 months.
  - The Council has embarked on a period of significant capital expenditure in the Borough that exceeds that which has gone before. This expenditure will require external borrowing and as such the Council will require a strategy for managing this. The Council is fortunate to be undertaking this expenditure at a time when borrowing rates are near an historical low. This expenditure is reflected in a number of the Prudential Indicators and has been allowed for in the General Fund Revenue Account.

## **The Capital Prudential Indicators 2017/18 – 2019/20**

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2017/18 to 2019/20 complements these indicators. Some of the prudential indicators are shown in the Treasury Management Strategy to aid understanding.

### **The Capital Expenditure Plans**

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors, similarly the proceeds from the Right-to-Buy sharing agreement with Bracknell Forest Homes will also be impacted on by the wider economy.

The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

<b>Capital Expenditure</b>	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>	<b>2019/20 Estimate £000</b>
Capital Expenditure	46,552	26,951	5,554
<b>Financed by:</b>			
Capital receipts	12,400	6,000	4,000
Capital grants & Contributions	18,041	19,221	4,209
<b>Net financing need for the year</b>	<b>16,111</b>	<b>1,730</b>	<b>-2,655</b>

### **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>	<b>2019/20 Estimate £000</b>
<b>Capital Financing Requirement</b>			
<b>Opening CFR</b>	<b>106,690</b>	<b>118,470</b>	<b>117,003</b>
<b>Movement in CFR</b>	<b>27,263</b>	<b>-1,041</b>	<b>-1,841</b>

<b>Movement in CFR represented by</b>			
Net financing need for CFR purposes #	29,554	1,858	1,345
Less MRP/VRP and other financing movements	-2,291	-2,889	-3,186
<b>Movement in CFR</b>	<b>27,263</b>	<b>-1,041</b>	<b>-1,841</b>

*# 2017/18 includes impact of carry-forward from 2016/17 in addition to 2017/18 Capital Programme*

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex A(ii)

**Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Estimates of the ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
<b>Ratio</b>	1.75%	2.26%	2.15%

The estimates of financing costs include current commitments and the proposals in the Capital Programme Budget report.

Incremental impact of capital investment decisions on the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	<b>Forward Projection 2017/18</b>	<b>Forward Projection 2018/19</b>	<b>Forward Projection 2019/20</b>
<b>Council Tax - Band D</b>	£7.29	£0.77	£0



### **Minimum Revenue Provision (MRP) Policy Statement**

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP)

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

**Based on CFR** – MRP will be based on the CFR

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

**Asset life method** - MRP will be based on the estimated life of the assets, in accordance with the regulations. Repayments included in annual PFI or finance leases are applied as MRP.

- For other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts and there is a strong likelihood that this will happen, the MRP policy will be:

**Deferral method** - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.

The actual charge made in the year will be based on applying the above policy to the previous year’s actual capital expenditure and funding decisions. Therefore the 2017/18 charge will be based on 2016/17 capital out-turn.

In order to minimise the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of borrowing, the Council intends on moving from the equal instalments method to the annuity method in calculating the annual charge over the estimated life of the asset.

## TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex A(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

### Debt and Investment Projections 2016/17 – 2019/20

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. As a result of the significant investment planned by the Authority over the next three years the Council will be required to borrow externally during the period 2017/18 to 2019/20. However the exact timing of this borrowing will depend on the progress made in completing the major schemes. As such this table below highlights the expected change in investment balances.

	2016/17 Estimated	2017/18 Estimated	2018/19 Estimated	2019/20 Estimated
<b>External Debt</b>				
Debt at 31 March	£10m	£45m	£50m	£55m
<b>Investments</b>				
Investments at 31 March	£0m	£0m	£0m	£0m

### Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Borough Treasurer reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### The Authorised Limit for External Debt

A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£128m	£127m	£126m
Other long term liabilities	£16m	£16m	£15m
Total	£144m	£143m	£141m

### Operational Boundary for External Debt

The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£121m	£120m	£119m
Other long term liabilities	£16m	£15m	£15m
Total	£137m	£135m	£134m

### Borrowing in advance of need.

The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough

Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

### Expected Movement in Interest Rates

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms, and impact, of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.
- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue loss – the difference between borrowing costs and investment returns.

### **Borrowing Strategy 2017/18**

The Council is likely to move into a position of external borrowing by the end of 2016/17 however this will depend on largely on the progress made in the existing capital programme. As such the Capital Programme will require the council to extend its borrowing requirements from 2017/18 and beyond. The Borough Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it is considered that there is a significant risk of a sharp fall in long and short term rates, or that long-term rates are unlikely to move over the medium term (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and short term borrowing will be considered and cash-flow managed on a daily basis.
- if it is felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.
- Borrowing will be undertaken using a mix of maturities so that a balanced portfolio of debt is achieved – borrowing at a variety of durations so as to minimise the cost to the Council. Short-term maturities will be used to manage the immediate needs of the Council's cash positions and longer term borrowing will be undertaken to support the requirements of the capital programme.

As such the Authorised Limit for External Debt has been set to enable the Council to manage its cash flow effectively through the use of temporary borrowing, in the unlikely event that this should be necessary.

## Investment Strategy 2017/18 – 2019/20

### Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

### Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background outlined in the Treasury Management Strategy, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the tightened controls already in place in the approved investment strategy.

### Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments offer high security and high liquidity and are:

- ◆ Denominated, paid and repaid in sterling;
- ◆ Not long term investments, i.e. they are due to be repaid within 12 months of the date on which the investment was made;
- ◆ Not defined as capital expenditure; and
- ◆ Are made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency or are made with the UK Government or a Local Authority in England, Wales, Scotland or Northern Ireland.

Non-Specified Investments are those which do not meet the definition of Specified Investments.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings,

watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix under the 'specified' and 'non-specified' investments categories.

### **Creditworthiness policy**

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used



Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£7m	6 months
Local authorities	n/a	£7m	1 yr
Money market funds	AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£7m	liquid

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2017/18 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

### **Country and Sector Considerations**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

### **Economic Investment Considerations**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The UK Bank Rate is forecast to remain unmoved through to late 2018, with the slight chance that rates .

The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

### Sensitivity to Interest Rate Movements

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management costs for next year.

	2017/18 Estimated + 1%	2017/18 Estimated - 1%
<b>Revenue Budgets</b>	<b>£'000</b>	<b>£'000</b>
Borrowing costs	350	-350

### Treasury Management Limits on Activity

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2017/18	2018/19	2019/20
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	£128m	£128m	£128m
<b>Limits on variable interest rates based on net debt</b>	£128m	£128m	£128m
<b>Maturity Structure of fixed interest rate borrowing 2017/18</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
<b>Maximum principal sums invested &gt; 364 days</b>			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

### **Performance Indicators**

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2017/18 the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

### **Treasury Management Advisers**

The Council uses Capita Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

### **Member and Officer Training**

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

**SPECIFIED INVESTMENTS**

*All investments listed below must be sterling-denominated.*

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Debt Management Agency Deposit Facility*</b> (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
<b>Term deposits</b> with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) : up to 364 Days.  <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
<b>Gilts</b> : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Money Market Funds</b> <i>These funds do not have any maturity date</i>	No	Yes	<i>AAA Rating by Fitch, Moodys or S&amp;P</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
<b>Commercial paper</b> <i>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]</i>  <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

## NON-SPECIFIED INVESTMENTS

*All investments listed below must be sterling-denominated.*

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	364 Days
<b>Term deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 Years
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	5 years

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum Credit Rating?</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
<b>Callable deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity.  (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>5 years</i>
<b>UK government gilts</b> with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	<i>10 years including but also including the 10 year benchmark gilt</i>



<b>Investment</b>	<b>(A) Why use it? (B) Associated risks?</b>	<b>Share/ Loan Capital?</b>	<b>Repayable/ Redeemable within 12 months?</b>	<b>Security / Minimum credit rating **</b>	<b>Circumstance of use</b>	<b>Maximum maturity of investment</b>
<b>Forward deposits</b> with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning.  (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	<i>5 years</i>
<b>Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution</b> : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>1 year</i>

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**TO: GOVERNANCE AND AUDIT COMMITTEE  
25<sup>TH</sup> JANUARY 2017**

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**RISK MANAGEMENT UPDATE  
Head of Audit and Risk Management**

**1 PURPOSE OF REPORT**

1.1 This report presents the updated Strategic Risk Register for review

**2 RECOMMENDATION(S)**

**2.1 To review and provide feedback on the Strategic Risk Register attached.**

**3 REASONS FOR RECOMMENDATION**

3.1 To inform the Governance and Audit Committee of the current key corporate risks to the achievement of the Council's objectives

**4 ALTERNATIVE OPTIONS CONSIDERED**

4.1 There is no alternative.

**5 SUPPORTING INFORMATION**

5.1 In accordance with the Risk Management Strategy the Strategic Risk Register has been reviewed quarterly by the Strategic Risk Management Group (SRMG) and twice a year by the Corporate Management Team (CMT). The Register was last reviewed by SRMG on 30<sup>th</sup> November 2016 and by CMT on 11th January 2017. The following changes were agreed at CMT:

- Risk 1- the score for likelihood was reviewed for the financial and economic risk to consider if this was too high given the actions taken to identify savings, the efficiency plan and the 4 year settlement. CMT agreed that this should be reduced from 5 to 3 to reflect that the actions to date have already mitigated the risk.
- Risk 3 - amended wording to reflect the impact of the Transformation Programme on staff resources.
- Risk 6- given that separate risk registers are now routinely developed and maintained for major projects and these are monitored by the individual project boards, it was agreed that a separate risk is not required for major projects and hence this risk could be removed.
- Risk 11- this risk has been reframed to focus on how the national and global economy might impact on the local Bracknell Forest economy with a risk score of 3 for both likelihood and impact.
- Risk 13- the town centre risk has been removed given that the project is well progressed, that there is a separate risk register for the town centre and financial impacts are reflected in risk 1.

- Risk 14- the transformation programme risk has been removed given that separate risk registers are in place and the programme is monitored by the Transformation Board.
- Risk 16 – new risk added on additional employment opportunities in new town centre affecting the Council's ability to attract and retain staff to deliver services. Risk score of 4 for both likelihood and impact.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 Nothing to add.

### Borough Treasurer

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

### Equalities Impact Assessment

- 6.3 Not applicable.

### Strategic Risk Management Issues

- 6.4 A robust Strategic Risk Register that is a complete and up to date record of the significant corporate risks is essential for effective risk management, enabling the Council to prioritise resources to identify and implement actions to address the threats to the achievement of the Council's objectives and make informed decisions.

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 SRMG, CMT and strategic risk owners.

### Method of Consultation

- 7.2 The Strategic Risk Register was reviewed by by SRMG on 30<sup>th</sup> November 2016 and by CMT on 11th January 2017

### Representations Received

- 7.3 None.

### Background Papers

Risk Management Strategy

### Contact for further information

Sally Hendrick (Head of Audit and Risk Management) 01344 352092

Sally.hendrick@bracknell-forest.gov.uk

## SUMMARISED RISK REGISTER

Ref	Date Added	Risk	Potential Impact	Current Residual Risk Score			Risk Owner(s)	Strategic Themes
				Like'hd	Impact	Total		
1	Qtr 4 2007/08	Maintaining satisfactory service standards within a balanced budget.	Strategic objectives and statutory duties not met Increased insurance claims/ legal costs/penalties.	3	4	12	Borough Treasurer	All themes
2	Qtr 4 2007/08	Council unable to predict and plan for future changes in demands for services arising from demographic changes and national policy initiatives.	Failure to meet demand Statutory duties not met	3	3	9	Director CYPL/ Director ASCHH	3,4,5 and 6
3	Qtr 4 2007/08	Loss of key/ senior staff. Managing services with reduced capacity and with staff resources re-allocated to the transformation programme	Negative impact on the effectiveness of services Difficulties in retaining high calibre staff.	4	3	12	Director of Corporate Services	All themes
4	Qtr 3 2008/09	IT infrastructure or systems unavailable due to IT failure, non-compliance with PSN/PCI requirements, insufficient IT staff resources of the required calibre to deliver services/projects, an incident preventing the functioning of IT or IT suppliers being unable to deliver/maintain systems.	Disruption to services. Failure to meet statutory duties Removal of access to external databases and systems e.g. DWP	3	4	12	Director of Corporate Services	All themes
5	Qtr 3 2012/13	Council unable to comply with data protection/security requirements to secure data resulting in inappropriate disclosure, loss or theft of sensitive data.	Fines/penalties Disruption to services. Failure to meet statutory duties Removal of access to external databases and systems e.g. DWP	3	3	9	Director of Corporate Services	All themes
6		Council unable to implement major project.	Cost overruns/ pressure on the capital budget Late delivery	4	3	12	See below	See below

Unrestricted

Ref	Date Added	Risk	Potential Impact	Current Residual Risk Score			Risk Owner(s)	Strategic Themes
				Like'hd	Impact	Total		
			Core objectives of projects not being achieved. Statutory responsibilities not met					
6a	Qtr 1 2011/12	Binfield Learning Village at Blue Mountain	See above	4	3	12	CMT/ Director CYPL	3
6b	Qtr 1 2011/12	School's places programme school's backlog maintenance.	See above	4	3	12	Director CYPL	3
6c	Qtr 4 2014/15	Coral Reef roof replacement and enhancements to facility	See above	2	3	9	Director of ECC.	4
7	Qtr 3 2008/09	Business Continuity Plans and procedures inadequate or not clearly communicated and understood.	Failure to respond effectively to a business continuity incident Disruption to services. Failure to meet statutory duties	3	3	9	Borough Treasurer	All themes
8	Qtr 4 2007/08	Factors outside the control of the Council may result in the injury, death or sexual exploitation of a vulnerable child or adult in the community. Weaknesses in Council procedures may contribute to the failure to safeguard a vulnerable child or adult.	Loss or reputation Fines/penalties Insurance claims	3	4	12	Director CYPL  Director ASCHH	3 and 4
9	Qtr1 2010/11	Council unable to maintain buildings/highways in accordance with health and safety and other legislative standards.	Injury, loss or damage. Increased liability claims. Potential non-delivery of housing Negative impact on service	3	3	9	Director of ECC.	1

Unrestricted

Ref	Date Added	Risk	Potential Impact	Current Residual Risk Score			Risk Owner(s)	Strategic Themes
				Like'hd	Impact	Total		
			delivery, productivity and reputation.					
10	Qtr 4 2007/08	Council unable to work effectively with key partners or involve residents in the development of our services.	Community needs not met Negative impact on community cohesion which could lead to extremism. Increased risk of failure of voluntary sector umbrella support	2	2	4	Director of Corporate Services  Assistant Chief Executive	All themes
11	Qtr 2 2015/16	Impact of the national and global economy on economic activity in the Borough. <del>Failure of economic activity in the Borough.</del>	Economic prosperity not sustained	3	3	9	Assistant Chief Executive	2
12	Qtr 4 2009/10	Council unable to implement legislative changes. Legal challenge on decisions relating to levels of service provision.	Litigation Prosecution Financial penalties/cost Loss of reputation	2	3	6	Director of Corporate Services	All themes
13	Qtr 2 2011/12	<del>Delays in the Town Centre Regeneration project led by Bracknell Regeneration Partnership (BRP) working in partnership with Bracknell Forest Council. Failure of the Council to monitor and control their respective elements of the project.</del>	<del>Increased costs for the Council. Delays to regeneration of the town centre Loss of reputation Core benefit of the regeneration not realised.</del>	4	4	4	Assistant Chief Executive	2 and 5
14	Qtr 4 2015/16	<del>Council unable to deliver the transformation programme.</del>	<del>Conflicting pressures between elements of the programme Core objectives/benefits not achieved. Statutory responsibilities not met</del>	2	4	8	Chief Executive	All themes
15	Qtr 4	Council unable to prevent a cyber attack	Disruption to services.	3	4	12	Director of	All

Unrestricted

Ref	Date Added	Risk	Potential Impact	Current Residual Risk Score			Risk Owner(s)	Strategic Themes
				Like'hd	Impact	Total		
	2015/16	and/or unable to respond effectively to an attack to enable services to be sustained.	Failure to meet statutory duties				Corporate Services	themes
16	Qtr 4 2016/17	Additional employment opportunities in new town centre affects the Council's ability to attract and retain staff to deliver services	Disruption to services. Failure to meet statutory duties	4	4	16	Director of Corporate Services	All themes



RISK MATRIX JANUARY 2017

LIKELIHOOD

5					
4			3. Staffing	16 Recruitment and retention	
3			2. Demand 5. Info Sec 7. Bus Continuity 9. Infrastructure/Assets 11. Economic activity.	1. Finance 4. ICT 8. Safeguarding 15 Cyber attack	
2		10. Partnership	12. Litigation		
1					
	1	2	3	4	5

IMPACT

Likelihood:  
 5 Very High  
 4 High  
 3 Significant  
 2 Low  
 1 Almost Imp

Impact:  
 5 Catastrophic  
 4 Critical  
 3 Major  
 2 Marginal  
 1 Negligible

RISK MATRIX JUNE 2016

LIKELIHOOD

5				1. Finance	
4			3. Staffing 6. Other Major Projects		
3			2. Demand 5. Info Sec 7. Bus Continuity 9. Infrastructure/Assets 12. Litigation	4. ICT 8. Safeguarding 14 Transformation 15 Cyber attack	
2		10. Partnership 12. Economic dev.		13. Town Centre	
1					

Likelihood:  
 5 Very High  
 4 High  
 3 Significant  
 2 Low  
 1 Almost Imp

Impact:  
 5 Catastrophic  
 4 Critical  
 3 Major  
 2 Marginal  
 1 Negligible

IMPACT

**TO: GOVERNANCE AND AUDIT COMMITTEE  
25<sup>TH</sup> JANUARY 2017**

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**APPOINTMENT OF LOCAL EXTERNAL AUDITORS  
BOROUGH TREASURER**

**1 PURPOSE OF REPORT**

- 1.1 To update the Committee on the new arrangements for the appointment of local external auditors introduced as part of the Local Audit and Accountability Act 2014.

**2 RECOMMENDATION**

- 2.1 **The Committee reviews the options and recommends to Council that Bracknell Forest joins the Public Sector Auditor Appointments collective procurement arrangement to appoint an External Auditor from the 2018/19 financial year on the grounds that this approach is most likely to achieve best value in a relatively restricted market and avoids the need and cost of the Council itself undertaking a complex and time consuming procurement process and establishing and administering a new independent Auditor Panel.**

**3 REASONS FOR RECOMMENDATION(S)**

- 3.1 To put in place arrangements for procuring local external auditors in time for the 2018/19 accounting year.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The options of the Council undertaking its own procurement or doing so in partnership with one or more local council, which would include establishing an independent Auditor Panel to advise on the selection process, have been evaluated but are not recommended, for the reasons detailed in the report.

**5 SUPPORTING INFORMATION**

Background

- 5.1 At its meeting on 30 March 2016 the Governance and Audit Committee received a report from the Borough Treasurer setting out changes to the process for appointing External Auditors under the Local Audit and Accountability Act 2014, following the closure of the Audit Commission which had previously undertaken this role for local authorities and the NHS.
- 5.2 The March 2016 report set out in detail the context that had led to the new national arrangements and the Government's delegation of powers to Public Sector Audit Appointments Ltd (PSAA) to appoint external auditors for a transitional period that ends following audit of the 2017/18 accounts.
- 5.3 PSAA is a company limited by guarantee without any share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association. PSAA is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

- 5.4 With the transitional arrangements coming to an end effectively later this year, Councils now need to put plans in place to appoint their local external auditors by 31 December 2017, so that the new auditors are in place by 1<sup>st</sup> April 2018. They will only be able to appoint an audit firm from a register of firms licensed by the registered supervisory bodies (under delegation from the Financial Reporting Council), hence the market will effectively be limited to firms who are currently undertaking external audit work for local authorities. As an indication, PSAA currently only contracts with five audit firms for the delivery of public sector external audit.
- 5.5 The March 2016 report noted that a number of options exist for councils to consider, as follows:
- i) Opt in to a collective procurement arrangement established by the local government sector, through “an appointing person” under the Local Audit (Appointing Person) Regulations;
  - ii) Undertake their own individual procurement process. This would need to be supported by the creation of an independent Auditor Panel to advise on the selection and appointment of a local external auditor and policies to govern the relationship between the council and the auditor;
  - iii) Work with one or more other councils to undertake a joint procurement process, potentially creating a joint Auditor Panel to advise.
- 5.6 Having considered the available options and the advantages and disadvantages of each, the Committee resolved that:
- 1 An interest be expressed in participating in the sector-led collective procurement arrangements, without commitment at this stage.
  - 2 Other options continue to be reviewed, and a further report be presented to the Committee when more information is available.

#### Update on Options Available

- 5.7 In July 2016, the Secretary of State for Communities and Local Government officially recognised PSAA as an “appointing person” able to act on behalf of local authorities in auditor appointments. This has happened with the support of the LGA, which had an objective of “establishing a national sector-led body which is able to deliver high quality, economic and efficient external audit arrangements for all authorities that choose to opt into its scheme”. In effect, the PSAA is a shared service arrangement that is open to all local authorities.
- 5.8 PSAA issued a prospectus in August 2016 and subsequently invitations to all authorities on 27 October 2016 to opt in to its collective arrangements. An outline procurement strategy was published in November 2016 that sets out how PSAA intends to fulfil the LGA’s objectives in practice. The prospectus and procurement strategy can be found on the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)) and are attached as background information at Annexes A and B of this report.
- 5.9 The closing date for acceptance of the opt-in invitation is 9 March 2017. Effectively this means that all authorities need to have reached an agreed Full Council position for the appointment of their local auditor by that date.
- 5.9 As at 4 January 2017, 177 of the 493 eligible local authorities had formally opted in to PSAA, including 31 unitary and county councils. The Borough Treasurer has sought information since then on the intention of other unitary authorities across the country.

Of the 33 authorities which have responded, 31 intend to opt in to the PSAA arrangement, 1 is yet to decide and only 1 is set to take its own path.

- 5.10 In relation to the other options available to local authorities, CIPFA published in December 2015 a guide to Auditor Panels, which are required if authorities do not opt in to an “appointing person” arrangement. The CIPFA guide is attached as Annex C to this report for ease of reference.
- 5.11 The minimum number of members for an Auditor Panel is 3, of which 2 must be considered independent from the authority. A panel member job description should be drawn up and agreed before commencing recruitment and the requirement or desire for relevant knowledge or expertise should be clearly determined. Vacancies must be publicly advertised, as is good practice for any public appointment, but particularly as a person may only be appointed as an independent member of an auditor panel if that vacancy has been advertised in accordance with the Auditor Panel Regulations.
- 5.12 CIPFA highlighted that appropriate skills and knowledge need to be sought when appointing members to an Auditor Panel. Some of these can be fairly generic, such as knowledge of the authority itself, values of good governance and ethics and public procurement rules. However, others are likely to be fairly specialist, including understanding of:
- a. local authority finance
  - b. accountancy (public sector or commercial)
  - c. audit processes and regulation (public or private sector, external/local audit or internal audit), including more specifically,
  - d. the role and responsibilities (statutory duties) of a local public auditor in local government.
- 5.13 As part of its consideration of the creation and role of Auditor Panels, CIPFA set out on pages 4 and 5 of the Guide the available options and its views on the possible advantages and disadvantages of each. The key points from CIPFA’s analysis are:
- Individual authorities may not be well placed to secure competitive bids from potential auditors and may find it difficult to attract sufficient, knowledgeable independent members to form a new Auditor Panel or join an existing Committee or Sub-Committee
  - A shared approach with one or more other authority may help address these issues, while requiring a degree of compromise on the auditor appointment
- 5.14 The issue of what level of allowances and expenses to pay Panel members is at the discretion of individual organisations. CIPFA suggests that authorities may wish to mirror arrangements for other allowances within their governance arrangements. There would clearly be an expectation of some financial recompense to engage a suitably qualified, independent individual which would to be taken into consideration.
- 5.15 Turning to the actual auditor appointment, this will need to be taken in accordance with EU procurement rules which specify particular stages and timescales. There are five key stages of the process which are likely to be common across authorities:
- i) decide on the appointment process (a decision for Council whether to use the sector led body or appoint independently)
  - ii) (if appointing independently) determine the important criteria to be considered when selecting the auditor and invite expressions of interest against these
  - iii) evaluate expressions received

- iv) final evaluation of tenders
  - v) recommendation to the authority.
- 5.16 While the Auditor panel would play a key role at each of these stages, in reality the detailed work to inform the Panel's considerations would need to be undertaken by Council officers. While the skills exist to do so, the issue of capacity in the context of reducing resources is a key challenge across the local government sector. This is a key factor cited by other authorities who have decided to opt in to the PSAA arrangement.

### Conclusions

- 5.17 Based on the following key issues, the Borough Treasurer does not recommend that Bracknell Forest Council independently seeks to appoint its local external auditor:
- As a small unitary authority, the Council is unlikely to attract competitive prices from suitably qualified organisations;
  - It is likely to prove difficult to attract sufficient independent members for an Auditor Panel that have an understanding of the authority and the broader skills required to play a key advisory role;
  - There is insufficient capacity internally to support the appointment process without affecting the successful delivery of the Transformation Programme.
- 5.18 It is arguable that working with other local councils could address at least some of the above issues. In this regard, 2 other Berkshire authorities have clearly signalled their intention to join the PSAA arrangement, leaving 3 other possible partners within the county who have yet to commit to a particular route.
- 5.19 Recent years have seen increased partnership working across the Berkshire unitaries, to deliver a range of specific functions. This indicates that such an approach could potentially be applied to the appointment of a local external auditor. However, to date no proposal has been made or received by Bracknell Forest for joint working in this area. This should not be taken as an indication that there is no interest, but rather as a reflection of the scale of other challenges facing authorities at this time.
- 5.20 A key issue for consideration is the timescale involved. Authorities must have appointed an auditor for their 2018/19 accounts by no later than 31 December 2017. An important and necessary first stage in this is to make a formal decision on their approach to appoint a local auditor and, if necessary, to establish an Auditor Panel by no later than 9 March. While this represents a timetable determined by the PSAA, it also reflects a realistic deadline to start a formal and complex procurement process to ensure a local auditor is in place.
- 5.22 Another factor is that the approach to local authority audit is tightly defined by the Local Audit and Accountability Act 2014 and the National Audit Office's (NAO) Code of Audit Practice, which came into force on 1 April 2015. There is no real scope for local variation of the approach required and the number of bodies qualified to audit local authority accounts is very small.
- 5.23 For these reasons, together with the likelihood of the PSAA being able to secure better value bids for work through a national collective process, very few authorities are expected to undertake their own procurement processes for a local auditor. The Borough Treasurer has also been unable to find any examples of unitary authorities working together outside of the PSAA arrangement, for the same reasons.
- 5.24 Therefore, while recognising the potential in future years to develop a local partnership that can learn from the experience of appointing a local auditor for the

first time, the Borough Treasurer recommends that Bracknell Forest should join the overwhelming majority of local authorities in opting in to the collective arrangements of the PSAA.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 As set out in the report the Local Audit and Accountability Act 2014 Act creates a legal framework enabling the Government to nominate a 'person' to act as a joint procurement body for local audit and to give that body the powers and duties to operate collective procurement arrangements. Such a body is required to appoint auditors to those local authorities which 'opt in' to the collective procurement arrangement. Any decision to opt in would be reserved to Full Council and not the Executive

### Borough Treasurer

- 6.2 The Borough Treasurer recommends the Council opting in to the PSAA collective arrangements, for the reasons detailed in the report.

### Equalities Impact Assessment

- 6.3 Not applicable

### Strategic Risk Management Issues

- 6.4 There is a risk costs may potentially rise if the procurement option chosen does not maximise economies of scale. There are also risks that authorities cannot attract sufficient independent individuals with relevant experience to sit on the Panels.

### Other Officers

- 6.5 Not applicable

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 Not applicable

### Background Papers

Annexes A to C

### Contact for further information

Stuart McKellar, Borough Treasurer - 01344 352180


stuart.mckellar@bracknell-forest.gov.uk

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# Developing the option of a national scheme for local auditor appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,  
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

# Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.


The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

# PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,  
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,  
Police and Crime Commissioners  
Treasurers’ Society (PACCTS)

# The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

# PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.



# PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,  
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,  
Fire Finance Network

# PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

# The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

# How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

**Please reply to: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)**

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

### **BOARD MEMBERS**

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

### **CHIEF OFFICER**

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of  
Finance and Resources,  
Staffordshire County Council

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Public Sector  
Audit Appointments



# **Audit services outline procurement strategy**

**November 2016**

**High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.**

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## Introduction

1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee and incorporated by the Local Government Association (LGA) in August 2014. It has a Board of non-executive directors supported by a Chief Officer and a team of staff who have significant experience and skills in managing contracts for public audit services. More information about the PSAA Board and Executive team can be found at <http://www.psaa.co.uk/about-us/who-we-are/>.
2. The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis under powers contained in the Local Audit and Accountability Act 2014. In accordance with these arrangements, PSAA is currently responsible for appointing auditors to local government, police, smaller authorities and local NHS bodies, and for setting audit fees.
3. From 2017/18, the transitional arrangements will end for local NHS bodies and smaller authorities, and PSAA will no longer be responsible for appointing their auditors. The transitional arrangements have been extended by one year for local government and police bodies, and PSAA will therefore continue to be responsible for appointing their auditors for the audit of the accounts for 2017/18.
4. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This new role means that PSAA is able to make auditor appointments for audits of the accounts from 2018/19 of principal authorities in England (other than NHS bodies) that choose to opt into its arrangements. PSAA's specification as an appointing person fulfils the LGA's objective of establishing a national sector-led body which is able to deliver high quality, economic and efficient external audit arrangements for all authorities that choose to opt into its scheme.
5. Appointments for 2018/19 must be made by 31 December 2017. By early 2017, all principal authorities will need to decide how their auditors will be appointed in the future. They may make an appointment themselves, or in conjunction with other bodies. Or they can take advantage of the national collective scheme developed by PSAA which is designed to meet sector needs. We believe that, by opting into the PSAA appointing person scheme, audited bodies will secure real benefits in terms of quality, cost, responsiveness and convenience.

## Purpose of the document

6. PSAA needs to enter into new contracts with audit firms in order to make auditor appointments to opted-in authorities by 31 December 2017. This procurement strategy sets out the basis on which the procurement of audit services will be carried out.

## Objectives of this procurement

7. The primary driver for this procurement is securing high quality audit services at the most competitive prices.

8. To secure the right balance, quality will be assessed against a broad range of relevant criteria through a combination of the regulatory regime (which tests quality and competence as part of registration and monitoring processes), the pre-qualification process and the invitation to tender responses.
9. The objectives of the procurement are to maximise value for local public bodies by:
  - securing the provision of high quality, independent audit services
  - incentivising audit suppliers to submit highly competitive prices;
  - awarding contracts to a sufficient number of firms to enable the appointment of an appropriately qualified auditor to every participating body; and
  - supporting a long term competitive, sustainable market for local public audit services which has value for all relevant authorities.
10. It is necessary to enter into contracts with a number of audit suppliers to enable PSAA to manage auditor independence, and meet the needs of the increasing numbers of bodies participating in joint or shared working arrangements.

### **Scope of this procurement**

11. The procurement will cover the audits of the accounts of all principal local government bodies that opt in to the appointing person scheme. Eligible entities include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.
12. There are currently 493 eligible principal local government bodies that have been invited to opt in to the appointing person arrangements. Invitations were issued on 27 October 2016. The closing date for acceptance of the opt-in invitation is 9 March 2017. We expect to receive acceptances throughout the opt-in period and will maintain an up to date record of bodies joining the scheme on the PSAA website. ([www.psaa.co.uk](http://www.psaa.co.uk)).
13. PSAA has allowed a considerably longer period during which an authority can opt in compared to the statutory minimum period of eight weeks. It is hoped this will enable authorities to meet the requirement under the regulations to make the decision to opt in at a full council meeting. (As corporations sole, the full council requirement does not apply to police and crime commissioners.)
14. In order to maximise the potential economies of scale from entering into large contracts with firms, and to manage any auditor independence issues, PSAA will seek to provide as much clarity and certainty as possible concerning the volume and location of work it is able to offer to firms.

### **Evolution of the strategy**

15. This strategy has been developed in the light of the practical knowledge and experience of previous procurements for audit and related services. It has been particularly informed

by lessons learned from the procurements carried out by the Audit Commission that resulted in the current audit contracts.

16. This outline strategy was formally adopted by the PSAA Board on 9 November, 2016.

## The procurement strategy

### The procurement route

17. The Public Contract Regulations 2015 (the Contract Regulations) will apply to the procurement and it will be carried out in accordance with those Regulations.

### Choice of procurement procedure

18. PSAA is keen to enter into contracts with a number of firms registered as local public auditors. This will give PSAA the ability to manage auditor independence issues, for example, where an audit supplier has a pre-existing relationship with an audited body which prevents it from accepting an audit appointment. It will also provide the flexibility to enable PSAA to respond to the increasing popularity of joint or shared working arrangements as a result of which partner audited bodies often express a preference for the appointment of a common audit supplier. By entering into contracts with multiple suppliers PSAA will also help to support a long term competitive, sustainable market for local public audit services.
19. Because the nature of the services being procured is highly specialised, PSAA will follow the restricted procedure (rather than the open procedure) in accordance with the Contract Regulations. This will enable PSAA to identify a short-list of suppliers with the necessary financial standing, technical capacity, skills and experience to provide services and then invite all those shortlisted to tender.
20. Suppliers invited to tender will be asked to quote prices for a contract length of five years, which matches the opt-in period for principal bodies.

### Contract lots

21. PSAA is minded to structure its procurement and invite bids as set out in the paragraphs below, subject to confirmation once the number of principal authorities opting in to the appointing person scheme is known,
22. There will be at least two or three contract areas, with up to three or four contract lots per area. The contract areas are likely to be contiguous geographic areas.
23. The size of the lots in each area will be graduated to reward the better tenders with larger volumes of work. For each individual lot PSAA will give a commitment to a minimum level of work which the lot will contain. The smallest lots are likely to have a

value of approximately £3m per audit year. Each lot, in its final form, will reflect a sensible balance of geography and a blend of the different authority types.

24. PSAA will apply a framework of rules and evaluation criteria which will ensure multiple providers in each geographical area and thus avoid undue dominance across the areas and lots as a whole.
25. The minimum commitment from PSAA for each lot will be clearly set out in the invitation to tender. Authorities will not be allocated to a lot until the procurement is complete and the subsequent consultation processes with authorities and audit firms have taken place.
26. Bidders will not be required to bid for all contract areas, although this is encouraged.
27. The value of the PSAA commitment for each lot will be expressed in terms of the 'audited body notional value' (ABNV), which comprises the published scale fees for 2016/17 for all opted-in bodies within the contract area. This will establish a consistent baseline against which suppliers will submit their competitive bids.

### **Bidding rules relating to lots**

28. PSAA will endeavour to ensure that it has a sufficient number of suppliers with contracts in each area to enable it to:
  - manage any independence issues that may arise when making auditor appointments to opted-in audited bodies;
  - respond to shared or joint working arrangements between audited bodies; and
  - make an appropriate auditor appointment to each opted-in audited body after fulfilling its statutory duty to consult such bodies on proposed appointments.
29. Subject to the outcome of the evaluation of responses to the invitation to tender, PSAA expects to award no more than one lot per area to any successful supplier. Contract lots will be awarded to the suppliers submitting the most economically advantageous tenders. This means that the maximum number of lots in total that any one supplier may win is likely to be either two or three, depending on the number of contract areas.
30. PSAA will seek to maximise the number of firms awarded contracts, aligned to the number of principal authorities that opt in.
31. Suppliers will be invited to express their bids as a fixed proportion of the relevant ABNV.

### **Audit Fees**

32. PSAA believe that audit fees achieved through large contracts will be lower than those that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.

33. PSAA's costs of managing the scheme will need to be covered by audit fees. We expect future annual operating costs to be lower than current costs because we plan to employ a smaller team to manage the scheme. The costs of developing and setting up the scheme will be funded from the share of our current deferred income which is relevant to eligible principal authorities.
34. PSAA will develop and consult on a system for setting fees for audit work. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a scale of fees which has regard to the size of the audited body, audit risk and the complexity of the work required. In all probability this will reflect past fees adjusted for any fee variations that have a recurring impact. Pooling means that all scheme participants will benefit from the most competitive prices. The number of scheme participants will be critically important – the greater the level of participation, the more advantageous the scale fees.
35. As a not-for-profit organisation, PSAA will be able to return any surplus funds generated by the scheme, after all costs have been met, to opted-in authorities. This obligation is set out clearly in our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.
36. Scale fees from 2018/19 cannot be set until the audit services procurement has been concluded. PSAA will consult on the proposed scale of fees in autumn 2017 and will publish the fees applicable in March 2018. A fee variation process will apply if substantially more or less work is required than is envisaged in the scale fee or the auditor is entitled to recover costs or expenses from the audited body under specific provisions in the regulations, for example in relation to public interest reports or objection work. The process will require that fees for additional work are discussed with and explained to the audited body and approved by PSAA before they can be invoiced.

## Procurement process

37. The key stages in the procurement process are set out below. In accordance with the Contract Regulations, PSAA will ensure that at each stage the process complies with the requirements of equal treatment, non-discrimination, transparency and proportionality.

### Timetable and key milestones

38. The timetable and key milestones for the procurement are summarised in Table 1. The target dates are provisional and may be subject to change.

Table 1:

Key milestone	Target Date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	20 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt in to the scheme for audits of 2018/19 accounts	9 March 2017



Key milestone	Target Date
Deadline for submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA Board approves contract award	30 June 2017

39. Following a statutory consultation process auditor appointments for opted-in principal authorities will be made by 31 December 2017 for audit years from 2018/19.
40. This timetable is consistent with the requirement set out in the Local Audit and Accountability Act 2014, for an authority to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

#### OJEU Contract Notice

41. The purpose and scope of the procurement will be set out in the Contract Notice to be published in the Official Journal of the European Union (OJEU).

#### Pre-qualification (selection) stage

42. The pre-qualification (selection) stage will be designed to enable PSAA to assess potential audit suppliers' eligibility, technical knowledge and experience, capability and capacity, and organisational and financial standing to meet PSAA's requirements.
43. The selection questionnaire evaluation criteria are:
- compliance with grounds that would otherwise lead to mandatory or discretionary rejection under the Contract Regulations;
  - satisfactory financial and economic standing and insurance arrangements;
  - technical and professional ability;
  - equality and diversity;
  - eligibility for appointment under the Act;
  - quality assurance arrangements; and
  - resourcing.

#### Tender stage

44. All potential suppliers who pre-qualify, by meeting the minimum threshold determined by PSAA, will be invited to tender for the contract areas for which they have pre-qualified.
45. The tenders for each contract area will be evaluated in accordance with the published evaluation criteria to identify the most economically advantageous tenders having regard to the bidding rules set out above.

46. Suppliers will only be requested to provide one response on audit quality irrespective of the number of contract lots they bid for.
47. The formal ITT evaluation criteria and methodology will be approved by the PSAA Board and published on the PSAA website.

### **Comments on this outline strategy**

48. PSAA welcomes comments on this outline procurement strategy, especially those from relevant audited bodies and prospective audit suppliers. This document and the further development of PSAA's procurement strategy will also be discussed with the Advisory Panel representing interested sector bodies which has been established to help PSAA tailor its appointing person scheme to meet sector needs. The current membership of the Advisory Panel can be found at <http://www.psa.co.uk/supporting-the-transition/appointing-person/advisory-panel/>.

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Guide to

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# CHAPTER 1

## Introduction

- 1.1** The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities as listed in Schedule 2 of the Act but including local authorities, clinical commissioning groups and police and crime commissioners in England.
- 1.2** These new arrangements include the ability of such bodies to appoint their own local public auditors via an auditor panel and this may be done either individually or jointly with one or more other authorities. Auditor panels must also advise the authority or authorities on the maintenance of independent relationships with the local auditor.
- 1.3** The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies<sup>1</sup> and smaller local government bodies moving to the new framework as planned on 1 April 2017 and larger local government bodies a year later, on 1 April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31 December 2016 and larger principal authorities by 31 December 2017. The phased implementation for principal bodies will better enable audit firms to plan their workloads and retain suitably qualified staff, provide auditor stability for principal authorities for the 2017/18 audit period, and enable the sector to make timely arrangements for procurement under the new framework.
- 1.4** The purpose of this guidance is to set out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor.
- 1.5** The guidance is not statutory, nor does it prescribe any further requirements not already detailed in legislation. It has been drawn up to advise and inform authorities of what they need to be aware and bear in mind in this area.
- 1.6** Where explanations of the Act and associated regulations are given, these are not to be considered as legal interpretations. A list of the legislation referred to within this guidance is provided in chapter 8, with relevant extracts reproduced in appendix A.

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1. Auditor Panel guidance for health bodies may be found at the HFMA website:  
[www.hfma.org.uk/NR/rdonlyres/67E73045-01FD-4B58-925D-C1FE0CA6078C/0/AuditorPanelGuidanceFINALSeptember2016.pdf](http://www.hfma.org.uk/NR/rdonlyres/67E73045-01FD-4B58-925D-C1FE0CA6078C/0/AuditorPanelGuidanceFINALSeptember2016.pdf)



# Establishing an auditor panel

## CHAPTER SUMMARY

- Authorities may opt into any sector-led body that may be established as the appointing person under the Local Audit and Accountability Act and relevant regulations. If they decide to do so, they will not need an auditor panel.
- Authorities may also establish their own auditor panel to advise them on the appointment of their local auditor and there are four main options for this:
  - establish a separate and individual auditor panel, solely for the authority
  - set up a panel jointly with one or more other authorities
  - use an existing committee or sub-committee to act as the auditor panel (subject to compliance with the other provisions and regulations relating to auditor panels)
  - ask another authority's auditor panel to carry out the functions of the authority in question.
- There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and its size, geographic location, etc.

- 2.1** In deciding whether and how to set up an auditor panel, relevant authorities (authorities) should consider the different options made available to them in the Local Audit and Accountability Act 2014 (the Act). The Act allows for flexibility in the arrangements, so authorities are able to choose which option will suit their local circumstances best.
- 2.2** Authorities may opt into any sector-led body that may be established to fulfil the 'appointing person' role as per section 17 of the Act and as detailed in the Local Audit (Appointing Person) Regulations 2015.<sup>2</sup> This guidance does not cover the operation of any sector-led body, nor does it set out the advantages or disadvantages of opting into such an arrangement, but authorities who do opt into such arrangements will not need to pursue further the options for establishing an auditor panel. Authorities are therefore advised to consider carefully all options available to them before making a final decision.
- 2.3** To summarise the options for establishing their own auditor panel, authorities may:
- a. set up their own separate and individual auditor panel
  - b. set up a panel with one or more other authorities
  - c. use an existing committee or sub-committee to act as the auditor panel (provided that it complies with the other provisions and regulations relating to auditor panels)
  - d. ask another authority's auditor panel to carry out the functions of the authority in question.

2. [www.legislation.gov.uk/uksi/2015/192/contents/made](http://www.legislation.gov.uk/uksi/2015/192/contents/made)

2.4 The main points to be taken into account when comparing the four main options for establishing an auditor panel are set out in the following table. For shorthand, the table refers to procuring but it should be remembered that auditor panels are acting in an advisory position. They will recommend to their authority or authorities which auditor to appoint but ultimately the responsibility for appointing the auditor rests with the authority itself.

## CONSIDERING THE OPTIONS

2.5 Before authorities consider the possible advantages and disadvantages of each option, they will need to investigate whether there is an appetite to procure jointly with another authority or authorities, or solely. If there is a desire for a joint contract, it is more likely that a joint auditor panel will be best at advising on appointments under the same arrangements.

Option	Possible Advantages	Possible Disadvantages
Set up own separate and individual panel to oversee separate and individual procurement	<ul style="list-style-type: none"> <li>■ Full ownership of the process</li> <li>■ Fully bespoke contract with the auditor</li> <li>■ Tendering process more based on local circumstances (within EU procurement rules)</li> </ul>	<ul style="list-style-type: none"> <li>■ May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations</li> <li>■ Will need to ensure that panel members are suitably qualified to understand and participate in the panel’s functions</li> <li>■ Will have to cover panel expenses completely</li> <li>■ May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers</li> <li>■ Will not achieve economies of scale</li> </ul>

Option	Possible Advantages	Possible Disadvantages
<p>Set up a panel jointly with other authority/ authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts</p>	<ul style="list-style-type: none"> <li>■ Less administration than a sole auditor panel</li> <li>■ Will be able to share the administration expenses</li> <li>■ May be easier to attract suitable panel members</li> </ul> <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> <li>■ May still be a relatively locally tailored process</li> <li>■ May be able to achieve some economies of scale</li> </ul> <p>If procuring separate audit contracts:</p> <ul style="list-style-type: none"> <li>■ An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree</li> </ul>	<p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> <li>■ May need to compromise on the arrangements or auditor contract</li> <li>■ May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together</li> <li>■ Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process</li> </ul>
<p>Use existing committee or sub-committee</p>	<ul style="list-style-type: none"> <li>■ Existing administrative structure in place</li> <li>■ Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements</li> </ul>	<ul style="list-style-type: none"> <li>■ Possible need to appoint new (sub) committee members to comply with independence regulations</li> </ul>
<p>Use another authority's panel</p>	<ul style="list-style-type: none"> <li>■ Will not have to set up an auditor panel</li> <li>■ Arguably most independent option for the authority using the host authority's panel</li> </ul>	<ul style="list-style-type: none"> <li>■ The panel may not understand the specific needs of the authority</li> <li>■ May need to enter into a formal arrangement with the other authority</li> <li>■ May be difficult to find an authority willing to enter into such an arrangement</li> <li>■ May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists)</li> </ul>

- 2.6** This is not an exhaustive list of the advantages and disadvantages of each option. Authorities may have other reasons to choose one option over another and the weighting that authorities place on each potential benefit or detriment may swing the balance to an overall decision one way or the other.
- 2.7** For example, it may be that a larger authority can attract not only a good level of competency in its auditor panel membership, but also a relatively high level of interest from audit providers keen to ‘win’ the authority’s audit. Such an authority may therefore believe that having the ability to fully own the appointment process will bring economic as well as other benefits specific to its own strategic objectives.
- 2.8** Conversely, for a smaller authority, the prospect of attempting to appoint a majority independent auditor panel and independent panel chair may prove challenging. In such cases, joint procurement with one or more other authorities or asking a larger authority’s panel to fulfil the role may be more appropriate.
- 2.9** An authority appointing panellists to its own auditor panel is required to take decisions on those appointments at full council. An authority choosing to share the auditor panel of another authority will want to satisfy itself that the decision to do so is being taken on an informed basis and at a level considered appropriate by the authority. Advice from relevant officers and members may have a role to play in making the decision.

## JOINT PANELS OR USING THE PANEL OF ANOTHER AUTHORITY

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- 2.10** When considering whether to create an auditor panel jointly with one or more other authority, the operational arrangements of such a panel needs to be taken into account in advance.
- 2.11** For example, it may be that one authority takes a nominated lead role in the establishment and running of the panel, or that each authority separately recruits a set share of the panel members.
- 2.12** Authorities will need to decide whether to procure jointly in a single tender process (ie for one audit contract that covers all the authorities) or whether to procure separately for each authority, as this will affect the operation of the panel. Authorities could tender the requirements through lots – these can be based on geographic location or for each individual authority. This decision may not need to be finalised until after the various options have been investigated.
- 2.13** A joint auditor panel, once established, can advise on the procurement of audit contracts by the authorities involved collectively and also on audit contracts to any subset of those authorities.
- 2.14** For example: A, B and C authorities jointly procure an audit contract for those authorities’ accounts; A and B jointly procure an audit contract for the accounts of a joint committee they share, while C, not being a constituent of that joint committee, does not take part.
- 2.15** Alternatively, A, B, and C might share the joint committee and procure an auditor jointly to audit that joint committee’s accounts, yet only A and B decide to procure their auditors jointly.

- 2.16** In both cases, the auditor panel of the authorities concerned will advise on any audit procurement by those authorities. The panel can also advise its authority on whether joint or separate audit procurement is ideal for that authority's circumstance.
- 2.17** It is possible for separate auditor panels to advise on a joint audit appointment, so long as the auditor panel's authority is involved in that appointment. However, this is clearly a logistically challenging approach and authorities will need to consider carefully whether the benefits of such an approach would outweigh the possible difficulties.

## USING AN EXISTING AUTHORITY COMMITTEE OR SUB-COMMITTEE

- 2.18** Another option available to authorities is to use an existing committee or sub-committee, such as the audit committee. Authorities may also create a sub-committee of an existing committee and this may be the most sensible method to draw on the expertise of an existing committee since it allows the sub-committee membership to be small enough for the respective number of independent panel members to be manageable.
- 2.19** There are advantages to this approach, particularly where an authority already has an independent audit committee chair or independent committee members.
- 2.20** In any case, it will be necessary to change the terms of reference of the committee being utilised as the authority's auditor panel to reflect the additional responsibilities of the committee and its members. An accurate terms of reference document will assist members of the committee in performing their respective committee and auditor panel duties without conflict of interest.
- 2.21** Where an authority does choose to utilise an existing committee or sub-committee in this way, it is important not to overlook Schedule 4, paragraph 6 of the Act. This essentially means that where there is other legislation that particularly applies to committees of local authorities, such enactments may not apply to a committee or sub-committee when it is acting as the auditor panel, for example those set out in section 100 of the Local Government Act 1972, which relate to the admission of meetings and access to agendas and other reports. However, the Local Audit (Auditor Panel) Regulations 2014 9 and 10 do reapply some of the enactments and authorities will need to ensure that they comply with all relevant legislation.
- 2.22** The relationship between the auditor panel and the audit committee, where the two bodies remain completely separate, is discussed later in this guidance in chapter 4.

## USING THE AUDITOR PANEL OF ANOTHER AUTHORITY

- 2.23** The Act has provided for the ability of one authority to use another authority's auditor panel to act as its own, without having to create a joint panel in the first instance.
- 2.24** For the commissioning authority, this may be considered to be the most independent option, given that the panel members will have been appointed in an entirely separate process. There is also the advantage of not having to go through the appointment process from the start, although the commissioning authority will need to ensure that there is still a majority of members of the panel that are independent of itself – members that are independent

of the host authority may not automatically be eligible as independent members to other authorities, so authorities that pursue this option either as the host or as the recipient will need to ensure that there are checks in place on this point.

- 2.25** As set out in the table above, it is likely that commissioning authorities will need to draw up a formal arrangement with the host or provision authority that covers the functions of the panel to be carried out and confidentiality and independence clauses as necessary.



# Appointing and operating the auditor panel

## CHAPTER SUMMARY

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- The minimum number of members that an auditor panel must have is three.
- There must be a majority of independent members as well as an independent chair. For a panel meeting to be quorate, there must be a majority of independent members present at the meeting.
- For joint auditor panels, it is likely that each authority will want to have representative members. For each additional member, there will need to be an additional independent member.
- Specific regulations clarify how independence is to be defined for the purposes of auditor panels.
- Panel members should have a certain level of specific knowledge and experience to ensure that the panel carries out its duties effectively. Authorities will need to ensure that they draft panel member job descriptions carefully and advertise widely enough to reach those potential candidates with the correct skills and experience and maximise the number of suitable applicants for those vacancies.
- Panel members may be paid an allowance and any reasonable expenses covered, but it is for authorities to determine such arrangements themselves.

## COMPOSITION OF THE PANEL

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- 3.1** The composition of the panel will be a key factor in achieving the characteristics of a good auditor panel. The Local Audit (Auditor Panel) Regulations 2014 (the Auditor Panel Regulations) are clear that the minimum number for an auditor panel is three members, of which at least two must be considered independent in line with the Local Audit (Auditor Panel Independence) Regulations 2014 (the Independence Regulations).
- 3.2** Authorities should therefore not be put off with the idea that auditor panels will be large; the quality of the panel members is of more importance than having an excessive number of members round the table. However, it is worth noting that the depth of knowledge and experience that is desirable may be harder to achieve with a small number.
- 3.3** That said, the requirement for an independent majority of members has a clear purpose and this must not be undervalued: it is the key mechanism for maintaining independence and separation between the auditor and the auditee. It ensures that the panel is able to fulfil its

statutory duty to advise the authority on maintaining an independent relationship with its auditor as well as on selection and appointment of its auditor.

- 3.4** In the case of joint auditor panels, any number of authorities can share a three-person panel to advise on their audit appointment, but it may be anticipated that authorities will wish to appoint their own representative members (although this is not required), which may in turn increase the size of the panel. In such cases, authorities must ensure that for each additional member, there is an additional independent member who is independent of all the authorities involved.
- 3.5** Authorities will need to set up a process to address incidental vacancies in their auditor panel membership, especially in the case of panels with a smaller number of members.
- 3.6** It is important to note that proceedings of the auditor panel will not be valid unless the meeting is quorate; that is, it is not sufficient that there is a majority of independent members who have been appointed to the panel – the majority of those present at a meeting must be independent. Where the chair cannot attend a meeting for any reason, another independent member must assume that role.

## INDEPENDENCE

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- 3.7** The Independence Regulations amend the Act and clarify further how independence is to be defined for the purposes of auditor panels.
- 3.8** The main areas through which independence may be impaired are where the panel member has:
- previous involvement within the last five years as a member or officer with the authority or another, connected authority or an officer or employee of a connected entity
  - a relationship (familial or friendship) with a member or officer of the authority or a connected authority or with an officer or employee of a connected entity
  - a contractual (commercial) relationship with the authority – either as an individual or via a body in which the panel member has a ‘beneficial interest’, and
  - a possible conflict of interest through being a prospective or current auditor of the authority or, within the previous five years, is or has been:
    - an employee of such a person
    - partner in a firm, or
    - director of a body corporate<sup>3</sup>
- which is a prospective or current auditor of the authority at the given time.
- 3.9** ‘Prospective’ auditor is defined as having made a bid to be contracted as the authority’s auditor and this bid has yet to be declined or withdrawn. There is therefore a small but important difference between ‘prospective’ and ‘future’, where any audit provider could be considered to be a potential future auditor but would not fall under the definition of a prospective auditor under this legislation.

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3. A company or other body recognised as such, having its own legal identity and responsibilities.

- 3.10** Panel members can also be disqualified under section 104(1) of the Local Government Act 1972, which covers specific areas of disqualification for membership of committees and joint committees.
- 3.11** It should be noted that there is no precise definition of ‘close friend’, as mentioned in paragraph 2(2)(d) of the Independence Regulations. The term was first used within the Localism Act 2011, but without definition, and the Independence Regulations have not subsequently defined what constitutes a ‘close friend’. Therefore, authorities will have to take each panel member’s relationships with its members and officers, and those of other connected authorities and entities, on a case-by-case basis, taking legal advice where issues arise.
- 3.12** In order to facilitate this process, it is suggested that panel members make declarations of interest that cover their family relationships and friendships, as well as any commercial relationships that may bar them from sitting on an auditor panel for any particular authority.
- 3.13** There are other situations that, while not set out in legislation as being barriers to independence, nevertheless may provide apparent conflicts of interest. For example, appointments that are overtly political or made through personal association of any member or officer of the authority; an appointment of a member of another (unconnected) local authority; or appointment of a working auditor. Such positions may not completely disqualify a potential panel member, however, as only a majority of members are required to be independent under the legislation, but such individuals may still be able to contribute greatly to the working of the panel.
- 3.14** Authorities are reminded that such appointments may still lead to perceptions of partiality, even with a majority of independent members sitting on the panel, and are advised to draw up safeguards against such accusations. An example may be where a panel member satisfies the requirements for being an independent member but is separately a member of a political party or known to have views closely associated with the policy of a particular party. It is therefore a good idea for panel members or potential members to declare, even if in doubt, something that may constitute a conflict of interest.

## KNOWLEDGE AND EXPERIENCE

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- 3.15** An effective panel composition not only takes into account the independence of its members, but also considers their skills and abilities. There is a wide range of knowledge and experience that members can bring to a panel and that will enable it to perform effectively. No one panel member would be expected to be an expert in all areas, but there may be some core areas of knowledge that members will need to acquire.
- 3.16** In addition, there are also specific skills that the panel chair will need. Many of these skills are not unique to the role of auditor panel chair and experience in other positions or non-executive roles should have helped to build these skills.
- 3.17** Evidence of appropriate skills and knowledge should be sought when appointing members to the panel, particularly for independent members whose skills may not already be known to the authority.

- 3.18** The following list sets out some key areas in which at least some general knowledge and experience will be desirable in a panel member:
- a. local authority finance
  - b. accountancy (public sector or commercial)
  - c. audit processes and regulation (public or private sector, external/local audit or internal audit), including more specifically,
  - d. the role and responsibilities (statutory duties) of a local public auditor in local government.
- 3.19** Other useful knowledge and experience may include knowledge of the authority itself; local government governance arrangements; the role and operation of the auditor panel; procurement; values of good governance and ethics; and law.
- 3.20** Authorities can tailor these lists to their own local circumstances. They may also wish to distinguish between core areas of knowledge that all panel members should seek to acquire and a range of specialisms that can add value to the panel.

## ROLE OF THE PANEL CHAIR

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- 3.21** The legislation does not specify whether the panel chair should be recruited into the role or appointed from the existing independent members of the panel. Both methods are equally suitable and it is up to the authority (or authorities in the case of a joint panel) to decide whether to recruit for an independent chair separate to the other panel members or not.
- 3.22** Whether undertaken during recruitment or afterwards, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:
- a. ability to plan the work of the panel with a clear focus on its role
  - b. skills of managing meetings
  - c. ability to bring an objective, apolitical attitude
  - d. core knowledge and skills required of panel members
  - e. ability to form good working relationships within the authority
  - f. in the case of joint auditor panels especially, the ability to manage authorities' as well as members' potentially differing priorities.
- 3.23** The tenure of the panel chair remains a matter for the authority, just as it does for all panel members, as set out in the Auditor Panel Regulations. In making this decision, however, it should be recognised that providing continuity in the post of the chair can help the panel to develop greater knowledge and expertise.

## AUDITOR PANELLIST APPOINTMENT PROCESS

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- 3.24** A panel member job description should be drawn up and agreed before commencing recruitment and the requirement or desire for relevant knowledge or expertise should be clearly determined. Vacancies must be publicly advertised, as is good practice for any public appointment, but particularly as a person may only be appointed as an independent member

of an auditor panel if that vacancy has been advertised in accordance with the Auditor Panel Regulations.

- 3.25** Panel vacancies must be advertised to reach those potential candidates with the correct skills and experience and to maximise the number of suitable applicants for those vacancies.
- 3.26** The primary considerations when considering panel membership should be independence, then maximising the panel's knowledge base and skills in line with its functions. Candidates should be able to demonstrate their independence, and their suitability should be checked.
- 3.27** Terms of office should be decided upon in advance by the authority and provision should be made for early termination and extension to avoid lack of clarity in the future.
- 3.28** Authorities will need to ensure that they begin the recruitment process in a timely manner so that the auditor panel is in operation with sufficient time allocated to tender, receive bids and ultimately provide a recommendation for appointment to the authority before the deadline set out in legislation.<sup>4</sup> (It should be noted that the auditor appointment process itself is likely to take months rather than weeks and therefore a project timetable will be of use.)
- 3.29** In any year of auditor appointment, the time commitment required of panel members is likely to be greater than in intervening years, extraordinary events notwithstanding. However, that is not to discount the general role that the panel has to play in advising the authority on maintaining an independent relationship with its auditor.
- 3.30** As mentioned in 3.27, the Auditor Panel Regulations state that it is the duty of the authority to set the terms of office for panel members. There are different options available to authorities, such as aligning the terms to the length of the audit contract, but it may also be advantageous to ensure that panel members are not replaced or recruited just before the audit appointment process is to begin as it will arguably be more useful for panel members to be familiar with the authority and their role during that process.
- 3.31** Authorities may also wish to consider whether terms of office will be renewable after a fixed length of time and whether those fixed terms will be the same for each panel member. If terms are to be renewable or differ in length, this will most likely cause variances in terms of office between members and will need to be monitored and managed by the administrative authority to ensure continuity.

## SELF-ASSESSMENT AND TRAINING

- 3.32** Panel members should be willing to review their knowledge and skills over their term of office, for example as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the panel, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date.
- 3.33** This may include, for example, being kept informed of the authority's strategic objectives and financial position; the role of the public sector local auditor; or training on specific areas such as limited liability agreements or procurement. Carrying out a skills gap analysis when

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4. *7(1) A relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.* Source: Local Audit and Accountability Act 2014.

a panel is appointed and monitoring knowledge and competencies during the tenure of the panel will assist in this.

- 3.34** The next chapter looks into the type of support that authorities should provide their auditor panel.

## THE RESIGNATION OR REMOVAL OF MEMBERS

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- 3.35** The legislation does not mention what may occur when a member resigns, although, as mentioned in 3.5 above, arrangements for such occasions should be considered and drawn up at the establishment of the auditor panel itself.
- 3.36** The Auditor Panel Regulations refer to the removal of panel members on disqualification, but it is assumed that this will be a highly unusual occurrence. However, authorities should maintain a register of any potential conflicts of interest and monitor this regularly for any possible impairment of panel member independence.

## ALLOWANCES AND EXPENSES

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- 3.37** The Auditor Panel Regulations state that it is for the authority to determine what allowances it will pay to the members of its auditor panel. The Act also states that authorities must meet the 'reasonable expenses' of its auditor panel when carrying out its duties.
- 3.38** Such expenses and allowances may include payments for travel and subsistence when attending auditor panel meetings, but this is for each authority to decide in advance of establishing their auditor panel and must be agreed with any other authority concerned in the case of joint auditor panels. Authorities will probably wish to ensure that these allowances are consistent with other similar allowances it pays.

# The functions of the auditor panel

## CHAPTER SUMMARY

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- The auditor panel must advise the authority on:
  - the selection and appointment of the auditor
  - whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
  - any proposal by the authority to enter into a liability limitation agreement
  - maintaining an independent relationship with its auditor
  - the outcome of any investigation of an auditor’s resignation from office, if this occurs, or on any proposal to remove a local auditor from office.
- Authorities need to provide administrative/secretariat support as well as direct officer support in the form of providing advice on certain areas both during and outside of panel meetings.
- Where an audit committee exists, there may be some overlap between the auditor panel and the committee. There are specific issues to bear in mind whether the panel and committee are separate, or where an existing audit committee undertakes to fulfil the statutory auditor panel role.

## WHAT THE PANEL DOES, AND HOW IT DOES IT

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- 4.1** The functions of the auditor panel are set out in Local Audit and Accountability Act 2014 (the Act) and also the Local Audit (Auditor Panel) Regulations 2014 (the Auditor Panel Regulations).
- 4.2** In summary, the auditor panel must advise the authority on:
- the selection and appointment of the auditor
  - whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
  - any proposal by the authority to enter into a liability limitation agreement (see chapter 7 for more information on this)
  - maintaining an independent relationship with its auditor
  - the outcome of any investigation of an auditor’s resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

- 4.3 The auditor panel is also included under legislation in any discussions and receipt of relevant documents relating to public interest reports. See chapter 7 for more on this area.
- 4.4 There is no specific mention of the auditor panel carrying out oversight of contract management for the life of the auditor appointment, but it would be helpful for the panel to be involved in this role. Further on this can be found later in this chapter.

## ADMINISTRATIVE ARRANGEMENTS

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- 4.5 The frequency of meetings is a matter for each authority to determine, based on where in the audit contract cycle it is and any other circumstances that may require the panel to discharge some of its other functions. The scheduling of meetings may be further complicated where the panel is jointly run with another authority or authorities and where the panel role is performed by an existing committee or sub-committee of the authority.
- 4.6 Typically, it would be expected that when undertaking the auditor appointment process, the panel will need to meet more frequently with several meetings concentrated in a shorter time period. Conversely, in the middle of an effective auditor contract, with no additional complications such as public interest reports or an abrupt end to the auditor contract, the panel will wish to meet more infrequently, focusing on the monitoring of the contract's operation.
- 4.7 As mentioned in chapter 3, the panel will not be quorate unless there is a majority of independent panel members present at the meeting. It is not sufficient to have a majority of independent members appointed to the panel. Therefore, once meeting dates have been finalised, in order to minimise the need to reschedule meetings, the importance of attending meetings in person should be impressed upon panel members.
- 4.8 Overall, care should be taken to balance the frequency of meetings against the need to give the business of the panel sufficient focused attention without lengthy and unproductive meetings. Equally, the panel should review whether some time-consuming aspects of its business could be more effectively addressed elsewhere. In making such judgements, the panel must have regard to its statutory duties. Care should be taken to avoid straying into matters of operational detail that should be resolved by officers or committees of the authority.
- 4.9 The skilful chairing of meetings with well-planned agendas should provide one mechanism for avoiding this danger but officer support also plays a key role here, as such support will include providing clarity about the panel's role during and outside of meetings. Not only will the authority need to supply a room in which the panel can hold its meetings, plus secretariat support including the assembling of papers and meeting agendas, in conjunction with the panel chair, but direct officer support will also be required.



## INDEPENDENCE FROM AND THE RELATIONSHIP WITH THE AUTHORITY

- 4.10** It is likely that there will be occasions when it will be desirable or even necessary to hear evidence from external sources, including the current auditor or prospective auditors and possibly the chair of the audit committee. A number of officers will have an important relationship with the panel, including:
- a. head of paid service or chief executive officer (CEO)
  - b. chief financial officer (s151 officer)
  - c. head of internal audit
  - d. head of procurement or the lead procurement officer for the audit contract.
- 4.11** The panel will need specific, direct officer support to allow it to function effectively. In addition to the secretariat support needed to run such a panel, it will be crucial for there to be an officer on whom the panel can call for advice as needed both during and outside of meetings. This advice may cover areas such as factual advice around the legislation, an authority's standing financial orders, procurement policy, etc, and it is imperative that such advice remains independent.
- 4.12** In the course of monitoring the audit contract, it may be helpful to invite other officers to meetings to give context to any discussions about quality. See paragraphs 4.16 onwards for further guidance in this area.
- 4.13** In the case of a joint auditor panel, it may be that the authority desires for a senior officer to attend meetings as an observer, if not as a full member of the panel. However, the panel chair will need to pay attention that meetings do not get overcome with the contributions of non-members to the detriment of the panel's business and independence.
- 4.14** It may be appropriate to consider how the panel operates outside formal meetings. There may be a need to keep panel members briefed on issues that are on the agenda and other matters may be too detailed for inclusion on the agenda. For example, external audit reports may be provided in full to panel members, but may be included on the meeting agenda only where there are significant matters to be discussed.
- 4.15** Further details on the relationship with the authority are set out in Part 3, paragraph 11 of the Act.

## MONITORING THE AUDITOR CONTRACT

- 4.16** The auditor panel may find it valuable to draw up a range of performance metrics by which the auditor contract can be measured. The website of the transitional body Public Sector Audit Appointments Ltd (PSAA),<sup>5</sup> set up to make appointments, set the terms of those appointments and decide on fees in the interim period before the new arrangements come into force, contains examples of such monitoring reports covering the past few years. Although these are at a higher level than auditor panels may want to use, they are still a useful indicator of the types of performance areas on which the panel may need to focus.

5. [www.psaa.co.uk](http://www.psaa.co.uk)

- 4.17** When the auditor panel is reviewing the contents of any policy relating to purchasing non-audit services that the authority may adopt, and whether the authority should adopt that policy, it may be beneficial to obtain the advice of the audit committee, whose members should have experience and knowledge of the types of non-audit work that may be undertaken.
- 4.18** Specifically, the Auditor Panel Regulations state that the auditor panel should advise the authority on the contents of the policy, including the circumstances in which the authority should ask the panel for advice in purchasing non-audit services and in which the authority should or should not purchase such services from the auditor. These are areas of which the audit committee should have knowledge and experience and its input will be useful.
- 4.19** However, regardless of any advice that the audit committee can give in this area, it is important that panel members are familiar with the regulatory framework within which local auditors operate and in particular the ethical standards. This will enable panel members to have the background knowledge required to fulfil the panel's role in advising the authority on adopting a policy on the purchasing of non-audit services and the content of such a policy, if adopted.
- 4.20** In addition, in recognition of the extra responsibilities placed on local auditors in relation to the proper expenditure of public money and achieving value for money, PSAA place requirements on auditors above and beyond those set out in the ethical standards, which the panel may wish to consider. These are detailed in the terms of appointment published on the PSAA website,<sup>6</sup> with paragraphs 2.6 and 2.7 and 2.22 to 2.38 of particular relevance to panel members.

## RELATIONSHIP WITH AUDIT COMMITTEE

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- 4.21** The auditor panel and the authority's audit committee, where one exists, will have a close working relationship in some areas of the panel's duties. This will be the case whether the panel is a standalone group or a sub-committee of the audit committee and closest where the audit committee is fulfilling the role of the auditor panel.
- 4.22** It would be useful to set out the audit committee's core role in relation to external audit, as detailed in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police*:

### **The audit committee's core role in relation to external audit**

**4.35** The audit committee's role should include receiving and considering the work of the external auditor. The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work in order to monitor the action to be taken. The committee should contribute to the authority's response to the annual audit letter.

**4.36** The audit committee should support the quality and effectiveness of the external audit process through:

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6. [www.psa.co.uk/wp-content/uploads/2006/08/Terms-of-Appointment-from-1-April-2015.pdf](http://www.psa.co.uk/wp-content/uploads/2006/08/Terms-of-Appointment-from-1-April-2015.pdf)

- Expressing an opinion on the selection and rotation of the external auditor.
- Reviewing how external audit plans fit with the agreed engagement and being satisfied that the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
- Assessing the effectiveness of the external audit process, including whether the external auditor has a good understanding of the authority, how the external auditor has met the audit plan, and feedback from key people such as the responsible financial officer and the head of internal audit.
- Reporting to full council or the police and crime commissioner or chief constable or other body as appropriate on the results of the review.
- Supporting the implementation of recommendations from the external auditor.
- Reviewing the authority's policy on non-audit work by external audit and details of any non-audit work actually undertaken.

4.37 In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit – for example, the quality reports from the Financial Reporting Council.

4.38 There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

4.39 Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

*Source: Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition), CIPFA, 2013*

- 4.23 There are three clear overlaps with the audit committee and auditor panel's duties, including:
- a. The quality and effectiveness monitoring role undertaken by the audit committee which will feed into the panel's contract monitoring.
  - b. The audit committee should be able to express an opinion on the selection and rotation of the auditor.
  - c. The audit committee reviews the authority's policy on non-audit work carried out by external audit whereas the auditor panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

4.24 There are specific points to be mindful of with regards to these three areas, both where the audit committee is carrying out the functions of the auditor panel and where they are completely separate entities.

## SEPARATE AUDITOR PANEL AND AUDIT COMMITTEE

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- 4.25** While the audit committee has a more regular and detailed role in monitoring the quality and effectiveness of the external auditor, the auditor panel's monitoring role is mainly going to be most important when nearing the end of the auditor contract, especially if the auditor indicates that they wish to bid to extend or renew their contract.
- 4.26** In that situation, communication between the audit committee and the auditor panel, most likely via the respective chairs, needs to include open sharing of any performance data related to the audit process collected by the audit committee and possibly informal or formal discussions with the panel about the auditor's effectiveness over the lifespan of the contract. This will allow the audit committee to express an opinion on the selection and rotation of the auditor, at least where the current (and possibly prospective) auditor is concerned.

## AUDITOR PANEL PERFORMED BY THE AUDIT COMMITTEE OR WHERE THE PANEL IS A SUB-COMMITTEE OF THE AUDIT COMMITTEE

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- 4.27** Legislation is clear that where the auditor panel function is performed by an existing committee or sub-committee of the authority, that committee has to ensure that it discharges the auditor panel duties separately, as if it were not a ratified committee of the authority.
- 4.28** Therefore, in relation to the three key areas of overlap between an auditor panel and the audit committee, if that is the committee chosen to fulfil the role of the panel, there needs to be clear demarcation between the respective duties of the panels.
- 4.29** The role of the chair in such a situation is vital, ensuring that members are clear about their purposes at any given time and that while their role in one entity can inform their position in the other, the decisions are to be made independently from each other. As mentioned previously, officer support will also be key.

# Appointing the auditor

## CHAPTER SUMMARY

- Although authorities will need to comply with their own policies and procedures, there are five key stages of the appointment process which are likely to be common across authorities:
  - decide on the appointment process
  - determine the important criteria to be considered when selecting the auditor
  - evaluate expressions received
  - final evaluation of tenders
  - recommendation to the authority.
- There are two main types of output from the appointment process: that coming from the auditor panel and that which is issued by the authority.

## THE MAIN STATUTORY DUTIES OF THE AUDITORS

- 5.1** The Local Audit and Accountability Act 2014 (the Act) sets out the general duties of 'local auditors' in respect of authorities as follows:
- a. The auditor must, by examination of the accounts and otherwise, be satisfied that the accounts comply with any legislative requirements that apply to them; that proper practices have been observed in the preparation of the statement of accounts; and that the statement presents a true and fair view.
  - b. The auditor must also be satisfied that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5.2** Auditors have to follow the National Audit Office's (NAO) *Code of Audit Practice*, which came into force on 1 April 2015, as well as having regard to any supporting guidance issued by the NAO.<sup>7</sup> This is a principles-based statutory Code that prescribes the way auditors must carry out their functions.
- 5.3** The main statutory duties are summarised at appendix C, but can be divided into three main areas:
- a. audit scope

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7. The Comptroller and Auditor General (C&AG) has legal responsibility for the production and maintenance of the *Code of Audit Practice*. The NAO undertakes operational work in respect of the Code on behalf of the C&AG and is the body that readers of this guidance should engage with in respect of Code-related matters. Consequently, this guidance refers to 'the NAO's *Code of Audit Practice*' throughout.

- b. reporting – to express an audit opinion, consider issuing a public interest report, etc
- c. additional powers and duties – such as giving electors the power to inspect the draft accounts and make objections against those accounts.

## KEY STAGES OF THE APPOINTMENT PROCESS

5.4 Authorities will have their own procurement/appointment policies and it is paramount that they comply with such prerequisites but, in general, there will be five main stages, as summarised in the following table:

Stage	
1	<p>Decide on the appointment process</p> <p>The first step is for the authority to decide whether to appoint an auditor panel using one of the four options (set out in chapter 2) or whether to use the sector-led body to appoint the auditor.</p> <p>Next, the timetable must be drawn up, taking into account EU procurement rules.<sup>5</sup></p> <p>At this stage, the authority may wish to decide upon the contract length.</p> <p>The authority will need to issue an Office of the Journal for the European Union (OJEU) Contract Notice and within 24 hours of this being published (or if not published, within 48 hours), publish the notice in Contracts Finder.</p>
2	<p>Determine the important criteria to be considered when selecting the auditor</p> <p>It is likely that authorities will use the restricted procedure under the Public Contracts Regulations 2015. This is a two-stage tender process: at the first stage, bidders complete a Pre-Qualification Questionnaire (PQQ) and this will be assessed (it is used to establish an organisation’s commercial, technical and financial capabilities and provides a method of shortlisting interested parties meeting the required minimum qualification criteria). During this first stage, there is no assessment of how the bidders will meet the tender requirements.</p> <p>Under the new Public Contracts Regulations 2015, authorities have to get all the tender documents ready before they issue the contract notice. This includes all the evaluation criteria, descriptive documents and audit specifications.</p> <p>This stage may involve obtaining input from sources external to the auditor panel, for example the audit committee, the CEO and the CFO.</p> <p>Criteria may include such areas as:</p> <ul style="list-style-type: none"> <li>■ audit team experience</li> <li>■ quality of service</li> <li>■ price</li> <li>■ added value</li> <li>■ range of non-audit services.</li> </ul> <p>The factors decided upon should be given a weighting so that each tender can be fairly assessed.</p>

8. European Union procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies and £111,676 for Schedule 1 entities. Contracts for external audit services tend to exceed the OJEU threshold.

Stage	
2	<p>Determine the important criteria to be considered when selecting the auditor (continued)</p> <p>The authority will have to comply with strict procurement timescales where they must allow 30 days for bidders to express an interest and then allow another 30 days for submission of tenders (this can be reduced by five days where the tender can be received electronically).</p> <p>Another option is the open procedure, which is a one-stage procedure where bidders complete all tender documents (the PQQ and tender response) at the same time. The authority evaluates the bids and then evaluates the PQQ part of the submission. The disadvantage with this procedure is that the authority may be inundated with large numbers of tenders, and will be required to evaluate all the bidders.</p> <p>Once the PQQ shortlisting has been completed, only invited bidders under the restricted procedure will complete the Invitation To Tender.</p>
3	<p>Evaluate expressions received</p> <p>The auditor panel should evaluate the tenders against the published criteria established at the outset of the procurement exercise.</p> <p>Under the procurement rules, authorities are not allowed to hold presentation meetings and award marks for the pitch. Presentation meetings can only be used for the purposes of clarifying the written tender submissions. The evaluation criteria that are used will be as stated in the original procurement documents.</p>
4	<p>Final evaluation of tenders</p> <p>Once the tender submissions have been evaluated, the authority will have to undergo a mandatory ten-day 'standstill period'. It will inform all bidders who have not been successful by sending them an Award Decision Letter.</p> <p>Once this formality has been completed, the authority can enter into the contract with the successful bidder. It will be required to issue a Contract Award Notice in OJEU and now also through the Contracts Finder portal.</p>
5	<p>Recommendation to the authority</p> <p>The auditor panel must give advice to the authority on the selection and appointment of the auditor. This advice, or a summary of it, must be published within 28 days of appointing the auditor.</p> <p>When the authority does not follow the advice given to it by the panel, it must also set out the reasons why it has not done so in the same notice.</p>

- 5.5** It is important to design the process for decision making in stages 1 and 2. Ensuring that the evaluation criteria and weighting are absolutely clear and resilient at an early stage, applying them consistently and fully documenting them, will make the process more secure against possible challenge.
- 5.6** If taking advice from officers on the evaluation criteria, the panel needs to be mindful as to whether any of these criteria might disadvantage some suppliers; for example, if too much weight is placed on track record of equivalent contracts and national capacity, this might exclude smaller regional suppliers.
- 5.7** An authority's auditor must be eligible for appointment in accordance with the Act. However, in addition to the statutory baseline set out in the legislation, the auditor panel may also wish to look at other desirable qualities that the audit firm or team possesses. This would fall under the criteria established in stage 2 of the appointment process.

- 5.8** For example, the firm may have expertise in a specific non-audit area in which the authority needs specialist advice. Or perhaps the audit team has particular local knowledge or experience of similar or neighbouring authorities that the procuring authority believes would be of great benefit.

## KEY PROCUREMENT PRACTICALITIES

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- 5.9** First, it is important to note that procurement regulations as set out above as well as the authority's own procurement rules and standing financial orders must be followed. Joint committees will need to establish whether to follow the procurement rules of the lead authority or agree rules between the constituent authorities. Such discussion will need to take place early on in the process, with the involvement of the authorities' procurement and legal departments.
- 5.10** It may be necessary to enlist the help of the authority's procurement specialists to give the auditor panel the essential knowledge it will need to direct the appointment process effectively. Where more than one authority has collaborated to create a joint auditor panel, for advising on the appointment of either a joint contract or multiple separate contracts, potentially with different audit firms, care will need to be taken to ensure that arrangements do not contravene an individual authority's own rules and standing financial orders.
- 5.11** Areas of procurement that the panel may need advice or training on include, but are not limited to:
- a. the legal framework of procurement
  - b. value for money (for example by focusing on outcomes and selecting on quality as well as price)
  - c. evaluating tenders
  - d. commercial confidentiality
  - e. conflicts of interest.
- 5.12** Careful preparation of the invitation to tender documents is also of great importance. A clearly set out scope for the service to be provided will assist the auditor panel in evaluating the bids that are received and also gives prospective auditors a specific idea of what is important to the authority and what it wants most from its auditor.
- 5.13** The desired contract length will obviously need to have been decided at an early stage in the process. A term of three to five years would be appropriate as the Act states that authorities must make an appointment at least once every five years, but the contract duration is for the authority to determine.
- 5.14** Authorities may also consider the possibility of including additional audit-related work within the scope of the appointment (for example, grant claims work). This may avoid separate procurement exercises being required should additional assurance requirements be introduced once audit contracts are in place.
- 5.15** For authorities who have joint committees, they will be aware that such committees no longer need to produce separate accounts and therefore are no longer required to be separately audited. However, they may already have existing obligations to produce audited accounts



and authorities must check whether their existing joint committees have such obligations in place. Even if they do not exist, constituent authorities may consider it appropriate to arrange for dedicated audit scrutiny of their joint committees, in addition to the statutory audit of their own accounts. Where authorities intend to take this route in addition to making their own auditor appointment, they should consider taking the advice of their auditor panel, although for a joint committee with a large number of constituent authorities, this may be difficult logistically.

- 5.16** Chapter 6 looks more closely at auditor resignation and removal but authorities should note that the appointment process after the resignation or removal of the auditor must take no longer than three months from the date when the auditor ceases to hold office. If the replacement auditor is not appointed within that time, the authority must notify the secretary of state.

## OUTPUTS FROM THE APPOINTMENT PROCESS

- 5.17** There are two main types of output from the appointment process – that coming from the auditor panel and that which is issued by the authority.
- 5.18** The auditor panel will produce its advice on the selection and appointment of the auditor, whereas the authority has to publish a notice, within 28 days of the appointment being made, that includes information such as the name of the auditor; the length of the appointment; the advice, or a summary of the advice, from the auditor panel; and, where it has not accepted that advice, the reasons why not. (Note that the full list of contents is set out in the Act.)
- 5.19** This notice must be published on the authority's website or in another format if the authority considers that it will reach the people who live within its area. The notice may leave out any information that could prejudice commercial confidentiality, unless it is in the public interest to publish such information.
- 5.20** Where the authority disagrees with the auditor panel's proposed selection and appointment recommendation, the legislation simply states that it must state publicly the 'reasons why'. Evidently these reasons must originate in discussions that have taken place within the authority but it could be expected that such reasons may be made on the basis of:
- a. the cost of the proposed appointment
  - b. a change in circumstances at the authority that makes the suggested selection no longer valid
  - c. a change in the evaluation criteria or weightings that lead to another bid being more acceptable (although the criteria and weightings should be drawn up robustly and tested to avoid such an occurrence), or
  - d. some misunderstanding on behalf of the auditor panel, as perceived by the authority.
- 5.21** Before an authority decides to reject the advice of its auditor panel, it must bear in mind that the key principle of having a majority independent auditor panel is to provide separation and objectivity in the appointment process and to safeguard against partiality, real or perceived, affecting the process.



# Resignation or removal of the auditor

## CHAPTER SUMMARY

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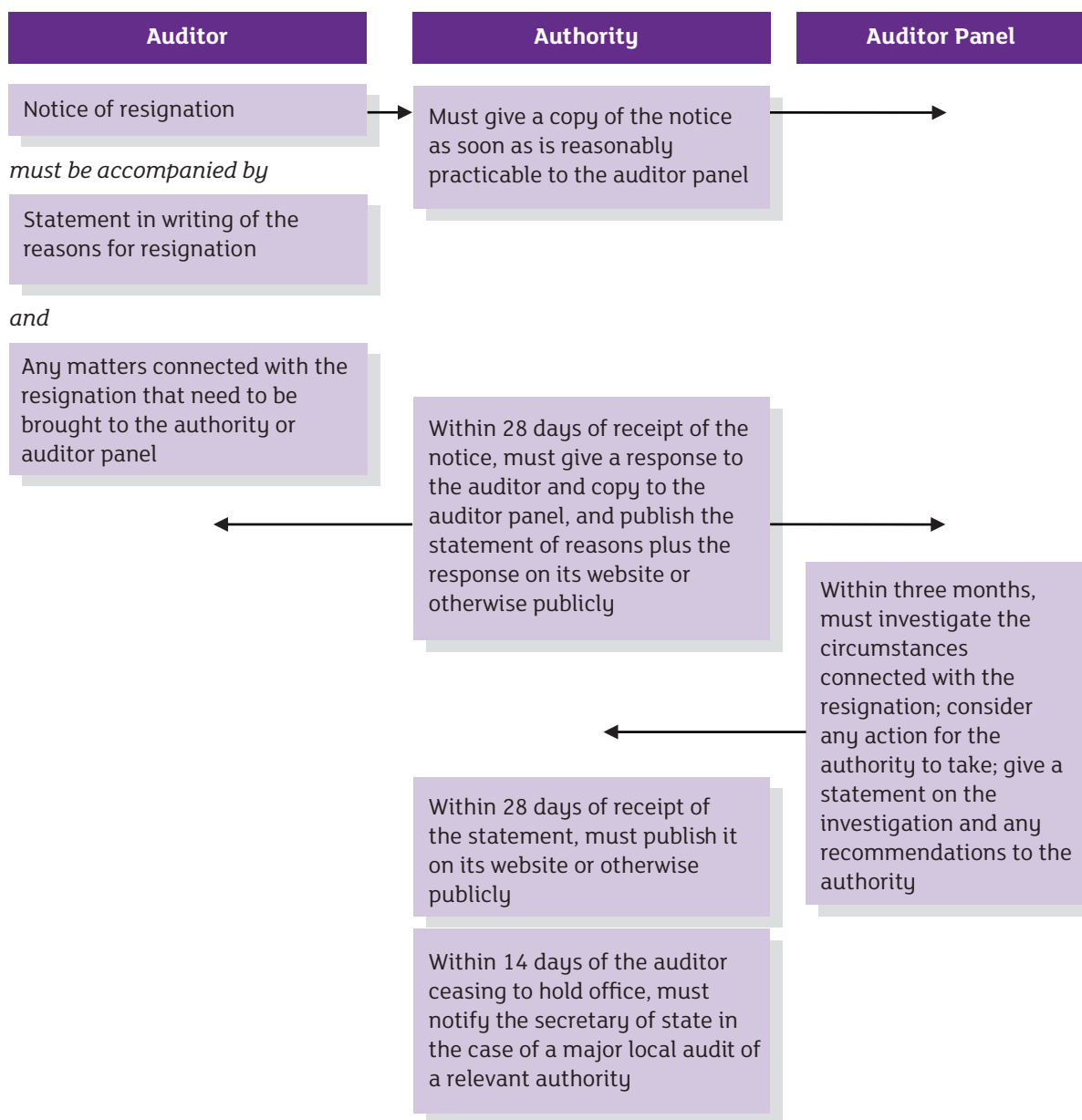
- Both resignation and removal of the auditor are expected to be very rare occurrences and there is no specific guidance to assist in identifying when such instances may arise.
- Legislation sets out specific steps that auditors, authorities and the auditor panel must undertake in each circumstance.
- There may be an interim period of up to three months from when an auditor ceases to hold office after resignation or removal and when a new auditor must be appointed. If any queries are received for the auditor or potential objections raised by a local elector, these should be held over until the arrival of the new auditor.

- 6.1** Resignation or removal of an auditor is expected to be a very rare occurrence. The arrangements for resignation and removal provide for transparency in the process so that both the authority and the auditor can make the reasons for their decisions public, and so that the auditor panel can provide independent advice to the organisation on any decision about removal of the auditor, or the circumstances around the auditor's resignation.

## RESIGNATION OF THE AUDITOR

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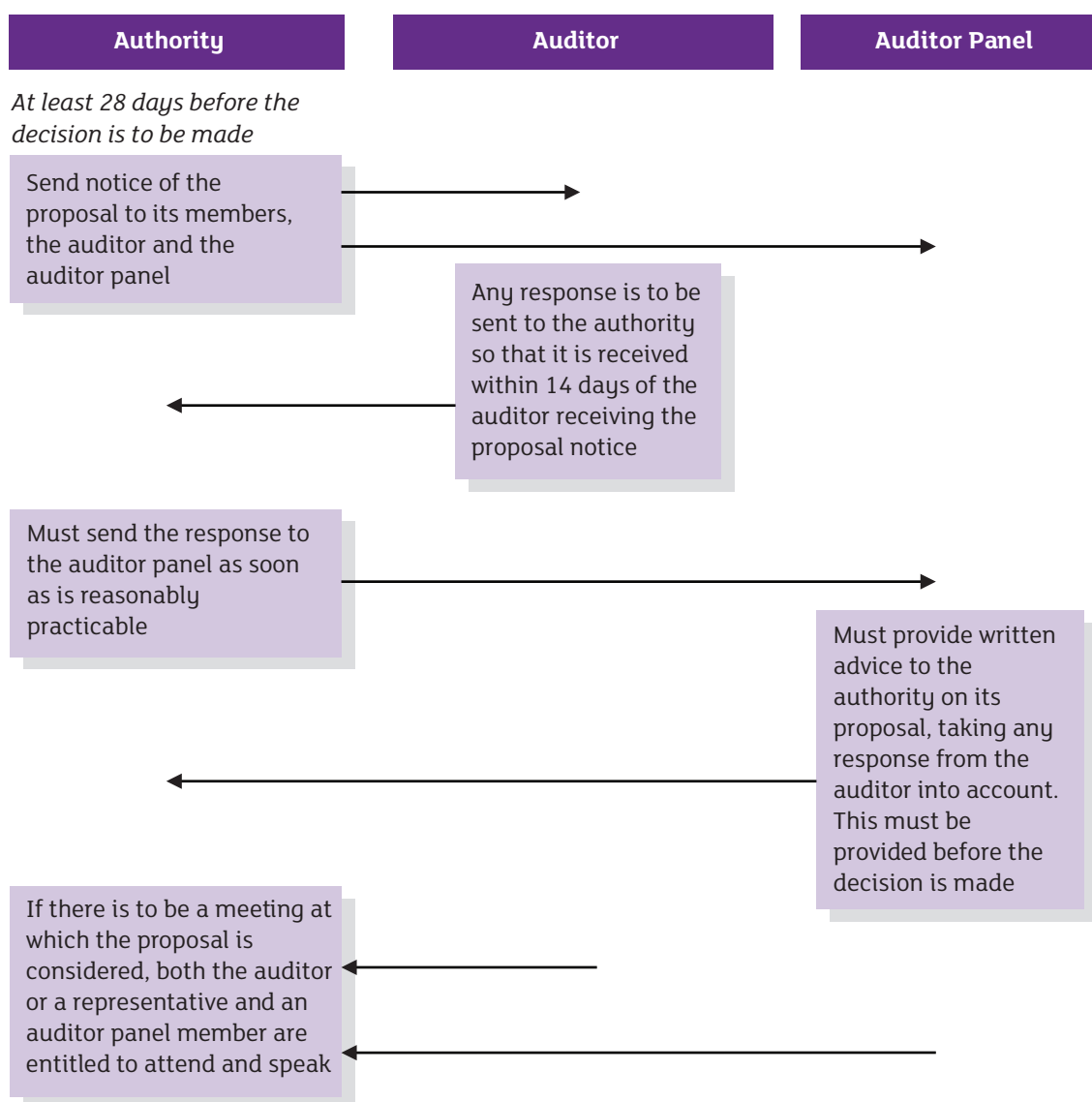
- 6.2** The legislation does not set out reasons why an auditor is likely to resign but reasons may include conflicts of interest that may arise or limitations of scope that mean the auditor believes it is no longer possible to carry out the work for which they have been contracted.
- 6.3** There are certain steps that the auditor and the authority must take in a situation when the auditor decides to resign their office. These are set out in the following diagram:



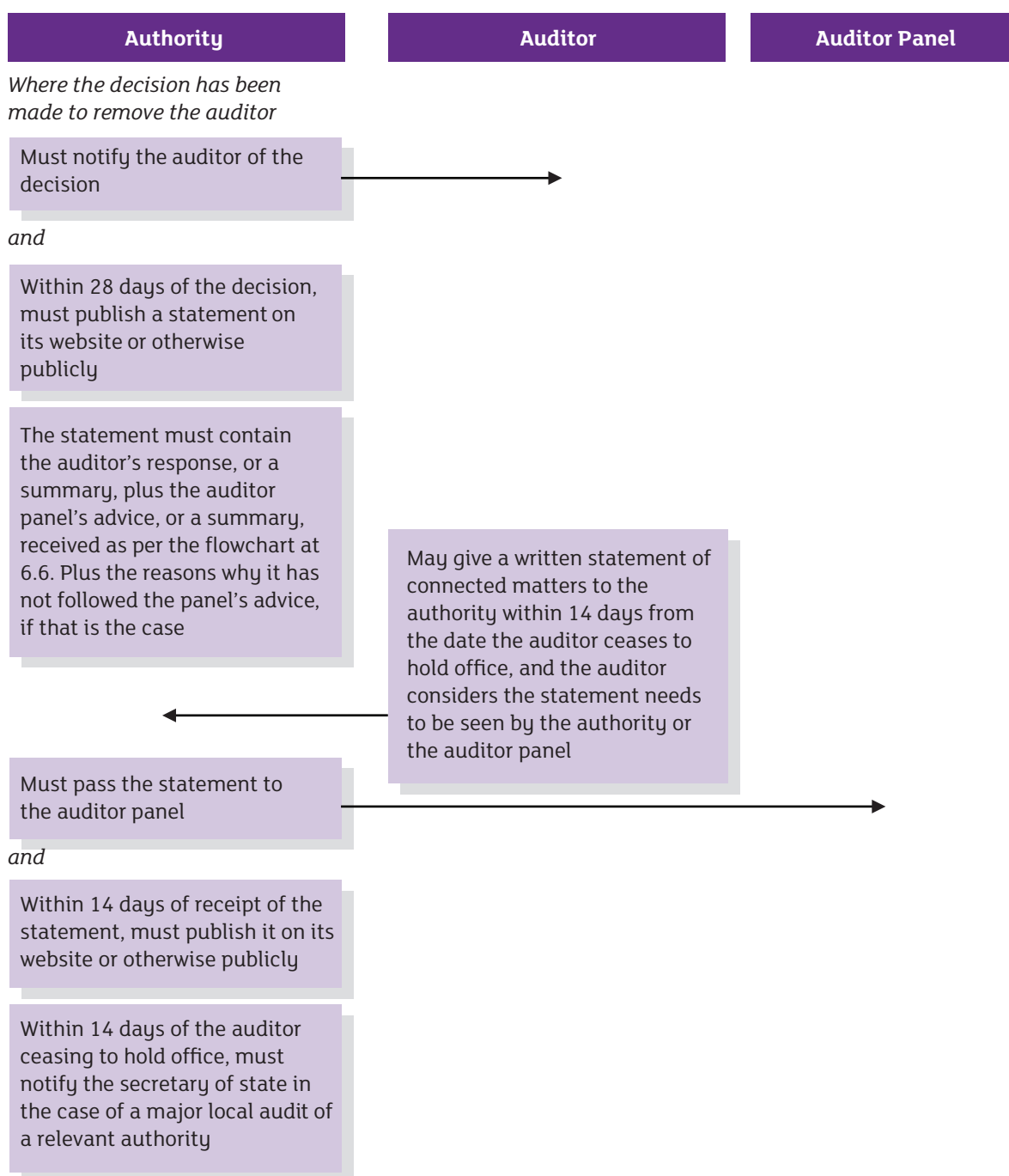
6.4 The diagram does not replace the detail contained within the legislation and authorities must refer to the Act and the Local Audit (Auditor Resignation and Removal) Regulations 2014 in these situations.

## REMOVAL OF THE AUDITOR

- 6.5 As for the resignation of the auditor, the legislation does not set out circumstances in which removing the auditor would be an appropriate step. In-contract removal should be an exceptional occurrence and a last resort action and as such, it is not possible to set out potential triggers for such a situation.
- 6.6 The steps that the authority, the auditor and the auditor panel are required to or may take before making the decision to remove the auditor from office are set out in the following diagram:



- 6.7** It would be expected that the authority and the auditor enter mediation if appropriate, to try to resolve any disputes. In such a case, it may be preferable to enlist the help of a third party and the auditor panel could fulfil that role.
- 6.8** The steps that the authority, the auditor and the auditor panel are required to or may take after making the decision to remove the auditor from office are set out in the following diagram:



## INTERIM ARRANGEMENTS BETWEEN RESIGNATION AND REMOVAL AND REPLACEMENT

- 6.9 If possible, the length of time that an authority does not have an appointed auditor must be minimised. However, there may be very rare periods in which an auditor vacancy is unavoidable.
- 6.10 In such a situation, the authority should have arrangements for sending holding replies to queries received for the auditor and ensuring that any queries, potential objections to the accounts<sup>9</sup> and other such matters are held safely until the new auditor's arrival.

9. As per paragraphs 25 to 27 of the Local Audit and Accountability Act 2014.

# Other functions of the auditor panel

## CHAPTER SUMMARY

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- Auditor panels have a statutory duty to give advice to the authority if it proposes to enter into a liability limitation agreement. If panel members lack knowledge or experience in this area, it is recommended that training is sought that may assist them in this duty.
- It is important that auditor panels not only see any public interest report that has been made by the auditor, but that they are also seen to have received the public interest report. That is why the legislation requires both the auditor and the authority to ensure that the auditor panel has received a copy of any such report.
- Auditor panels should take a public interest report into account when advising the authority on its relationship with the auditor. Public interest reports also inform the panel's monitoring of the quality and effectiveness of the auditor.

## LIABILITY LIMITATION AGREEMENTS

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- 7.1** Section 14 of the Local Audit and Accountability Act 2014 (the Act) explains that liability limitation agreements seek to limit the amount of a liability owed to a relevant authority by the auditor in respect of any negligence, default, breach of duty or breach of trust occurring in the course of the audit of accounts, of which the auditor may be guilty in relation to the authority.
- 7.2** Auditor panels have a statutory duty to give advice to the authority if it proposes to enter into a liability limitation agreement. It is not the role of this guidance to give specific legal advice on such agreements. Instead, authorities must take proper advice from their legal team if they are considering entering into such an agreement, as well as considering the advice obtained from the panel.
- 7.3** Auditor panel members may not have any knowledge or experience of such agreements. It is therefore recommended that any training given to panel members includes liability limitation agreements to ensure that they are able to discharge their duty in this area to the best of their ability.
- 7.4** The Local Audit (Liability Limitation Agreements) Regulations 2014 (the LLA Regulations) give some additional information in this area, including that any agreement must not extend past the duration of the auditor contract to which it relates; and that the agreement can only limit

the auditor's liability to an 'amount as is fair and reasonable in all the circumstances of the case'.

## **PUBLIC INTEREST REPORTS**

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- 7.5** The responsibility of the auditor panel in respect of public interest reports (PIRs) is a relatively small one. When a PIR relating to the authority, or an entity connect to it, has been made by the auditor, the auditor must notify the panel as soon as is reasonably practicable afterwards.
- 7.6** The Act underlines the importance of the auditor panel receiving the PIR by also stating that the authority must send a copy of the report to the panel as soon as is practicable after receiving it.
- 7.7** While it is the responsibility of the authority to respond to and act upon any PIR relating to itself, or a connected entity, the report may raise issues or concerns relating to the authority's independent relationship with the auditor, on which the auditor panel must advise the authority. It is key that the panel sees when something unusual and potentially challenging to this relationship has occurred.
- 7.8** Issues arising from a PIR may also inform the auditor panel's monitoring of the quality and effectiveness of the auditor's term of office and any reappointment, if sought. The auditor panel will take any PIR into account when advising the authority on subsequent auditor appointment, for example where they may detect an authority does not want to reappoint an auditor that it perceives as challenging owing to a PIR. The panel can also provide balanced advice if, following a PIR, there is a proposal to remove the auditor or there are conditions that lead to the auditor resigning. The auditor panel's influence here will be in their advice, and that advice is being made public.



# Other sources of guidance and assistance

- Local Audit and Accountability Act 2014
- Local Audit and Accountability Act 2014 Explanatory Notes
- Local Audit (Auditor Panel) Regulations 2014
- Local Audit (Auditor Panel Independence) Regs 2014
- Local Audit (Auditor Resignation and Removal) Regulations 2014
- Local Audit (Liability Limitation Agreements) Regulations 2014
- Local Audit (Smaller Authorities) Regulations 2015
- *Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)*, CIPFA, 2013
- *Code of Audit Practice*, National Audit Office, 2015



## APPENDIX A

# Legislation relating to auditor panels

Appendix A reproduces sections of the legislation that are relevant to auditor panels. The appendix is not intended to be a substitute for the detailed requirements of the legislation itself.

## ESTABLISHING AN AUDITOR PANEL

### What does the legislation say?

#### Local Audit and Accountability Act 2014

##### **Section 9 Requirement to have auditor panel**

- (1) *Each relevant authority must have an auditor panel to exercise the functions conferred on auditor panels by or under this Act.*

#### SCHEDULE 4 FURTHER PROVISIONS ABOUT AUDITOR PANELS

##### **Options for auditor panels**

Para 1 (1) *The auditor panel of a relevant authority (“R”) must be—*

- (a) *a panel appointed as an auditor panel by R,*
  - (b) *a panel appointed as an auditor panel by R and one or more other relevant authorities,*
  - (c) *a committee of R to which sub-paragraph (2) applies, or*
  - (d) *a panel to which sub-paragraph (3) applies.*
- (2) *This sub-paragraph applies to a committee of R (however described) which has not been appointed as an auditor panel if—*
- (a) *R determines that the committee should be R’s auditor panel,*
  - (b) *the committee agrees to be R’s auditor panel, and*
  - (c) *the committee complies with the other provisions applying to auditor panels made by or under this Schedule.*
- (3) *This sub-paragraph applies to a panel if—*
- (a) *the panel is (by virtue of any of paragraphs (a) to (c) of subparagraph (1)) the auditor panel of a relevant authority other than R,*
  - (b) *R determines that the panel should be R’s auditor panel,*
  - (c) *the panel agrees to be R’s auditor panel, and*
  - (d) *the panel complies (as regards R) with the other provisions applying to auditor panels made by or under this Schedule.*
- (4) *References in sub-paragraphs (1) and (2) to a committee of R include a subcommittee of a committee of R.*

## APPOINTING AND OPERATING AN AUDITOR PANEL

### What does the legislation say?

#### Local Audit and Accountability Act 2014

##### SCHEDULE 4 FURTHER PROVISIONS ABOUT AUDITOR PANELS

##### **Constitution of auditor panels**

Para 2 (1) A relevant authority's auditor panel, other than a health service body's auditor panel—

- (a) must consist of a majority of independent members (or wholly of independent members), and
  - (b) must be chaired by an independent member.
- (2) A member of a relevant authority's auditor panel, other than a health service body's auditor panel, is "independent" at any given time if the following conditions are met—
- (a) the panel member has not been a member or officer of the authority within the period of 5 years ending with that time (the "last 5 years"),
  - (b) the panel member has not, within the last 5 years, been a member or officer of another relevant authority that is (at the given time) connected with the authority or with which (at the given time) the authority is connected,
  - (c) the panel member has not, within the last 5 years, been an officer or employee of an entity, other than a relevant authority, that is (at the given time) connected with the authority,
  - (d) the panel member is not a relative or close friend of—
    - (i) a member or officer of the authority,
    - (ii) a member or officer of another relevant authority that is connected with the authority or with which the authority is connected, or
    - (iii) an officer or employee of an entity, other than a relevant authority, that is connected with the authority,
  - (e) the panel member is not the authority's elected mayor,
  - (f) neither the panel member, nor any body in which the panel member has a beneficial interest, has entered into a contract with the authority—
    - (i) under which goods or services are to be provided or works are to be executed, and
    - (ii) which has not been fully discharged,
  - (g) the panel member is not a current or prospective auditor of the authority, and
  - (h) the panel member has not, within the last 5 years, been—
    - (i) an employee of a person who is (at the given time) a current or prospective auditor of the authority,
    - (ii) a partner in a firm that is (at the given time) a current or prospective auditor of the authority, or
    - (iii) a director of a body corporate that is (at the given time) a current or prospective auditor of the authority.

**Inserted by the Local Audit (Auditor Panel Independence) Regulations 2014 (2014/2845)**

(7) In sub-paragraph (2)— “elected mayor” has the same meaning as in Part 1A of the Local Government Act 2000(a);

“officer”, in relation to an entity other than a relevant authority, means a person elected or appointed as, or to, that entity.

**Local Audit and Accountability Act 2014**

(8) For the purposes of sub-paragraph (2)(d), a person (“R”) is a relative of another person (“P”) if R is—

- (a) P’s partner,
- (b) P’s parent or grandparent,
- (c) P’s son, daughter, stepson, stepdaughter or grandchild,
- (d) P’s brother or sister,
- (e) P’s uncle, aunt, nephew or niece,
- (f) a parent, son, daughter, brother or sister of P’s partner, or
- (g) a partner of any person within paragraphs (b) to (f), and for this purpose “partner” means a spouse, civil partner or someone a person lives with as if they were husband and wife or civil partners.

**Inserted by the Local Audit (Auditor Panel Independence) Regulations 2014 (2014/2845)**

(8A) For the purposes of sub-paragraph (2)(f) to (h)—

“body in which the panel member has a beneficial interest” means a body in which the panel member is a partner, or of which the panel member is a director, or in the securities of which the panel member has a beneficial interest; “current or prospective auditor”, in relation to a relevant authority, means—

- (a) the person appointed to act as the authority’s local auditor, or
- (b) a person who has made a bid, which has not been declined or withdrawn, for a contract of appointment as the authority’s local auditor;

“director” includes a member of the management committee or other directing body of a registered society, and a member of a limited liability partnership;

“registered society” means a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014;

“securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

**Local Audit and Accountability Act 2014****SCHEDULE 4 FURTHER PROVISIONS ABOUT AUDITOR PANELS****Status of auditor panels**

- Para 6 (1) Where a relevant authority other than a health service body has determined that a committee of that authority should be its auditor panel, the panel when acting as such is not to be treated as a committee of the authority for the purposes of any enactment.*
- (2) Sub-paragraph (1) is subject to provision made by regulations under paragraph 5.*
- (3) References in this paragraph to a committee of a relevant authority include a sub-committee of such a committee.*

**Inserted by the Local Audit (Auditor Panel) Regulations 2014 (2014/3224)****Members of auditor panels**

- 2.**—*(1) An auditor panel of a relevant authority must have three or more members.*
- (2) A person may only be appointed as an independent member of an auditor panel if—*
- (a) the vacancy for an independent member has been advertised by the relevant authority in such manner as it considers is likely to bring the vacancy to the attention of the public; and*
- (b) the person submitted an application to fill the vacancy to the relevant authority.*
- (3) If the relevant authority is a local authority operating executive arrangements, the function of appointing members of an auditor panel is not the responsibility of an executive of the authority under those arrangements.*
- (4) If the relevant authority is a local authority within the meaning of section 101 of the 1972 Act (arrangements for discharge of functions), that section does not apply to the authority's function of appointing members of an auditor panel.*
- (5) If the relevant authority is the Greater London Authority, the function of appointing members of an auditor panel to fill casual vacancies must be exercised by the Mayor of London and the London Assembly acting jointly on behalf of the Authority.*
- (6) If the relevant authority is a parish meeting, the function of appointing members of an auditor panel to fill casual vacancies must be exercised by the parish meeting itself (and not by its chairman on behalf of the parish meeting).*

**Term of office of panel members**

- 3.** *The term of office of a member of an auditor panel is to be determined by the relevant authority which appoints that panel member.*

**Removal of panel members on disqualification**

4. Where a member of an auditor panel, or its chair, becomes disqualified from being a member of an auditor panel by virtue of regulation 8, the relevant authority which appointed that member must—
- (a) remove the disqualified member or chair from the auditor panel where that member has not already resigned or agreed to resign; and
  - (b) appoint a person to fill the vacancy.

**Allowances of panel members**

5. A relevant authority may pay the members of its auditor panel such allowances as the authority may determine.

**Proceedings and validity of proceedings of auditor panels**

- 6.— (1) Subject to paragraph (2), an auditor panel may determine its own proceedings.
- (2) In relation to any meeting of an auditor panel—
- (a) the quorum is three, and
  - (b) the proceedings of the panel are valid if the majority of members present at the meeting are independent members of the panel.

**Local Audit and Accountability Act 2014**

**SCHEDULE 4 FURTHER PROVISIONS ABOUT AUDITOR PANELS**

**Expenses of auditor panels**

Para 7 A relevant authority must meet the reasonable expenses of its auditor panel incurred by the panel when acting as such.



## THE FUNCTIONS OF THE AUDITOR PANEL

### What does the legislation say?

#### Local Audit and Accountability Act 2014

##### **Procedure for appointment**

*Section 8(2)(d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor.*

##### **Functions of auditor panel**

*Section 10(1) A relevant authority's auditor panel must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts.*

- (4) A relevant authority's auditor panel must advise the authority on the selection and appointment of a local auditor to audit its accounts.*
  - (5) Advice under subsection (1) or (4) must be given—*
    - (a) if the relevant authority asks for it, and*
    - (b) at other times, if the auditor panel thinks it is appropriate to do so.*
  - (6) A relevant authority's auditor panel must advise the authority on any proposal by the authority to enter into a liability limitation agreement (see section 14).*
  - (7) Advice under subsection (6) must be given if the authority asks for it.*
- 8(2)(d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor.*

##### **Relationship with relevant authority**

*Section 11(1) A relevant authority other than a health service body must, if asked to do so by its auditor panel, supply to the panel any documents or information held by the authority and required by the panel for the exercise of its functions.*

- (2) A relevant authority's auditor panel, other than the auditor panel of a health service body, may require a member or officer of the authority to come to a meeting of the panel to answer its questions.*
- (3) In the application of subsection (2) to a corporation sole, the reference to a member is a reference to a holder of that office.*
- (4) A person mentioned in subsection (2) must comply with a requirement imposed by an auditor panel under that subsection.*
- (5) This does not require the person to answer any questions which the person would be entitled to refuse to answer in or for the purposes of proceedings in a court in England and Wales.*

**Local Audit (Auditor Panel) Regulations 2014 (2014/3224)****Functions of auditor panels: further details**

- 7.—(1) In complying with its duties under section 10(1) to (3) of the Act a relevant authority's auditor panel must advise the authority on—
- (a) whether to adopt a policy on the purchasing, from the authority's local auditor, of non-audit services;
  - (b) if the authority proposes to adopt such a policy, on its contents, including—
    - (i) the circumstances in which the authority should ask the auditor panel for advice in connection with the purchasing of non-audit services; and
    - (ii) the circumstances in which the authority should or should not purchase non-audit services from the authority's local auditor.
- (2) In this regulation “non-audit services” in relation to a relevant authority means services provided by the authority's local auditor to the authority other than in the exercise of the functions of the local auditor under the Act.

**APPOINTING THE AUDITOR****What does the legislation say?****Local Audit and Accountability Act 2014****Procedure for appointment**

Section 8(1) A relevant authority must consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor under section 7.

Section 8(2)(d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor

**Local Audit (Auditor Resignation and Removal) Regulations 2014 (2014/1710)****Appointment of a local auditor following removal or resignation**

Section 9.—(1) Where a local auditor resigns or is removed from office, the relevant authority must, within three months of the date on which the local auditor ceases to hold office, appoint a replacement local auditor to audit its accounts.

- (2) If a relevant authority fails to comply with paragraph (1) it must immediately inform the Secretary of State of that fact.
- (4) Where a relevant authority fails to comply with paragraph (1) the Secretary of State may—
  - (a) direct the authority to appoint the auditor named in the direction; or
  - (b) appoint a local auditor on behalf of the authority.

## RESIGNATION OR REMOVAL OF THE AUDITOR

### What does the legislation say?

#### **The Local Audit (Auditor Resignation and Removal) Regulations 2014 (2014/1710)**

##### **Role of the auditor and the relevant authority in respect of the auditor panel**

- 3(2) A notice of resignation under paragraph (1) is not effective unless accompanied by a statement in writing of—
- (a) the reasons for the local auditor ceasing to hold office;
  - (b) any matters connected with the local auditor ceasing to hold office that the local auditor considers need to be brought to the attention of the relevant authority or the relevant authority's auditor panel.
- 3(4) The relevant authority must, as soon as is practicable after receiving—
- (a) notice in writing under section 1215(1) of the 2006 Act; or
  - (b) an effective notice of resignation under paragraph (1), give a copy of the notice (and, where applicable, the statement referred to in paragraph (2)) to the authority's auditor panel.
- 3(5) The relevant authority must, within the period of 28 days beginning with the date on which the authority receives the statement referred to in paragraph (2)—
- (a) send a response to the local auditor and a copy of the response to the relevant authority's auditor panel;

##### **Role of the auditor panel in connection with a resignation of a local auditor**

- 4(1) Where a local auditor resigns from office the relevant authority's auditor panel must, within the period of three months beginning with the date on which the resignation takes effect—
- (a) investigate the circumstances connected with the local auditor ceasing to hold office;
  - (b) consider whether any action is required to be taken by the relevant authority to address any matters raised by the resignation; and
  - (c) give a statement to the relevant authority containing—
    - (i) the results of the panel's investigations under sub-paragraph (a); and
    - (ii) the panel's recommendations in relation to any action to be taken by the authority.

**Procedure for removal of local auditor from office**

- 6(1) Not less than 28 days before the relevant authority is to make a decision on removing a local auditor from office, the relevant authority must give notice in writing of the proposal to—
- (a) each of its members (if it has members);
  - (b) the relevant authority's auditor panel; and
  - (c) the local auditor.
- 6(3) The relevant authority must, as soon as is practicable after receiving a response under paragraph (2), give a copy of the response to the relevant authority's auditor panel.
- (4) The auditor panel must, before the relevant authority makes a decision on the proposal to remove a local auditor from office, provide written advice to the authority on the proposal.
- (5) If the local auditor has made a response under paragraph (2) the advice under paragraph (4) must include advice in relation to that response.
- (6) Where the proposal and advice are to be considered at a meeting of the relevant authority—
- (a) the local auditor or a representative of the local auditor is entitled to attend and speak at that meeting; and
  - (b) a member of the authority's auditor panel is entitled to attend and speak at that meeting.
- 7(1) Where a relevant authority decides to remove a local auditor from office, it must—
- (a) notify the local auditor of the decision; and
  - (b) within the period of 28 days beginning with the date of the decision publish a statement—
    - (i) if the relevant authority has a website, on its website;
    - (ii) otherwise, in accordance with regulation 1(3).
- (2) The statement referred to in paragraph (1)(b) must contain—
- (a) any response, or a summary of the response, received from the local auditor under regulation 6(2);
  - (b) the advice, or a summary of the advice, received from the authority's auditor panel under regulation 6(4); and
  - (c) if the relevant authority has not followed the advice referred to in sub-paragraph (b), its reasons for not doing so.
- 7(4) Where, within the period of 14 days beginning with the date on which the local auditor ceases to hold office—

- (a) a relevant authority receives from the auditor a written statement of matters connected with its removal from office, and
  - (b) the auditor considers the statement needs to be brought to the attention of the relevant authority or the relevant authority's auditor panel, the authority must comply with paragraph (5).
- (5) The relevant authority must—
- (a) give a copy of the statement referred to in paragraph (4) to the authority's auditor panel and, within the period of 14 days of receiving that statement—
    - (i) in the case of a major local audit of a relevant authority, to the Secretary of State or, where the Secretary of State has designated a body in an order under section 1252 of the 2006 Act, to that body; or
    - (ii) in any other case, to the supervisory body by which the local auditor is recognised; and
  - (b) publish the statement—
    - (i) if the relevant authority has a website, on its website;
    - (ii) otherwise, in accordance with regulation 1(3).

## LIABILITY LIMITATION AGREEMENTS AND PUBLIC INTEREST REPORTS

### What does the legislation say?

#### Local Audit and Accountability Act 2014

##### **Section 15 Further provisions about liability limitation agreements**

- (1) Before entering into a liability limitation agreement, a relevant authority other than a chief constable or the Commissioner of Police of the Metropolis must consult and take into account the advice of its auditor panel.

#### SCHEDULE 7 REPORTS AND RECOMMENDATIONS

##### **Public Interest Reports**

- Para 1(4) A local auditor must notify a relevant authority's auditor panel (if it has one) as soon as is reasonably practicable after making a public interest report relating to the authority or an entity connected with it.
- 4(3) As soon as is practicable after receiving the report, the relevant authority must supply a copy of the report to—
- (a) each of its members (if it has members), and
  - (b) its auditor panel (if it has one).



# The auditor's statutory duties

This table is from the National Audit Office's *Code of Audit Practice*, which came into force on 1 April 2015. It is reproduced with the kind permission of the National Audit Office.

## The auditor's statutory responsibilities

Schedule 1 aims to provide an accessible view of auditors' responsibilities. To achieve this, the schedule summarises (rather than reproduces) relevant sections of the Act. The schedule is not intended to be a substitute for consideration of the detailed requirements of the Act itself.

### Schedule 1

#### The auditor's statutory responsibilities

Audited bodies other than health service bodies	Statute
<b>Audit scope</b>	
To be satisfied that the accounts comply with the requirements of the enactments that apply to them	Section 20(1)(a) Local Audit and Accountability Act 2014
To be satisfied that proper practices have been observed in the preparation of the statement of accounts and that the statement presents a true and fair view	Section 20(1)(b) Local Audit and Accountability Act 2014
To be satisfied that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources	Section 20(1)(c) Local Audit and Accountability Act 2014
<b>Reporting</b>	
To express an opinion on the accounts	Section 20(2)(b) Local Audit and Accountability Act 2014
To certify completion of the audit	Section 20(2)(a) Local Audit and Accountability Act 2014
Where appropriate, to give an opinion on the part of the financial statements that relates to a pension fund maintained by the authority under regulations under section 1 of the Public Service Pensions Act 2013	Section 20(3) Local Audit and Accountability Act 2014
To consider the issue of a report in the public interest	Section 24, Schedule 7 paragraph 1(1) Local Audit and Accountability Act 2014
To consider whether to make a written recommendation to the audited body, copied to the Secretary of State	Section 24, Schedule 7 paragraph 2 Local Audit and Accountability Act 2014
<b>Additional powers and duties</b>	
To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts	Sections 26 and 27 Local Audit and Accountability Act 2014
To apply to the court for a declaration that an item of account is contrary to law	Section 28 Local Audit and Accountability Act 2014
To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review	Sections 29 and 31, Schedule 8 Local Audit and Accountability Act 2014
To comply with the Code of Audit Practice prepared by the Comptroller and Auditor General and approved by Parliament	Section 20(5) Local Audit and Accountability Act 2014
To have regard to any guidance to auditors issued by the Comptroller and Auditor General	Section 20(6) Local Audit and Accountability Act 2014



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**TO: GOVERNANCE & AUDIT COMMITTEE  
25 JANUARY 2017**

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## **ESTABLISHMENT OF CODE OF CONDUCT PANELS**

### **Director of Corporate Services – Democratic & Registration Services**

#### **1 PURPOSE OF REPORT**

- 1.1 This report asks the Committee to formalise the establishment of Code of Conduct Panels; to confirm their terms of reference; and the appointment of members to sit on them.

#### **2 RECOMMENDATIONS**

- 2.1 **That Code of Conduct Panels are set up as required to determine complaints about councillors or co-opted members, and to apply or recommend sanctions if appropriate, with the terms of reference and composition as set out in paragraph 5 of this report;**
- 2.2 **That the following people are appointed to the pool of co-opted members:**
- **David St John Jones in his capacity as the independent co-opted member of the Governance and Audit committee (independent co-opted member)**
  - **Heather Quillish (independent co-opted member)**
  - **Khan Juna (independent co-opted member)**
  - **Cllr Diana Henfrey (parish/town council representative)**
  - **Cllr Bob Shurville (parish/town council representative)**
- 2.3 **That the Borough Solicitor is delegated authority to make appointments to the pool of independent co-opted members as vacancies arise, in consultation with the Governance & Audit Committee Chairman.**

#### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 These are set out in the report.

#### **4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None as this is giving effect to the Committee's and Council's previously expressed views in relation to this matter.

#### **5 SUPPORTING INFORMATION**

- 5.1 At its meeting on 30 November 2016, Council considered a number of recommendations from this Committee in relation to standards issues and in particular the procedure for dealing with allegations that councillors or co-opted members had breached the Code of Conduct for Members and Co-opted Members. Council agreed all of the recommendations which included the dissolution of the Standards Committee and the revision of the terms of reference of the Governance and Audit Committee to include consideration of standards issues which had previously been under the remit of the Standards Committee.

### **Code of Conduct Panel terms of reference**

- 5.2 The new complaints procedure adopted by Council provides for a Code of Conduct Panel to be convened when required, with delegated authority to determine complaints and to apply or recommend sanctions if appropriate.
- 5.3 The terms of reference of the Panel are:  
*To consider allegations of misconduct against councillors and co-opted members of the Council and to impose appropriate sanctions in the case of a breach being found.*  
*To specify whether any sanction should take effect immediately or at a later date and whether the sanction should be time limited.*
- 5.4 Code of Conduct Panels have no power to suspend or disqualify a councillor or co-opted member, or to withdraw basic or special responsibility allowances.

### **Independent Person**

- 5.5 The Localism Act 2011 requires the Council to appoint at least one Independent Person as part of its arrangements for dealing with allegations of a breach of the Code of Conduct. The Independent Person is someone at arm's length from the Council who will be available to be consulted by both the Monitoring Officer and the councillor or co-opted member who is the subject of the allegation.
- 5.6 It is important to note that the Independent Person fulfils a different role to the independent co-opted member and, although present at any hearing to advise the Panel, they will not be a member of the Panel itself.
- 5.7 The Council has previously appointed Dr Louis Lee as the Independent Person and Mr Elwyn Hopkin as the reserve. Their role and appointments are not affected by this report.

### **Panel membership**

- 5.8 Each Panel will comprise any three councillors drawn from the Governance & Audit Committee based on their availability, and they will elect one of their number to chair the hearing. In addition there will be one non-voting co-opted member on each Panel.
- 5.9 As Code of Conduct Panels are in effect sub-committees of the Governance & Audit Committee they are required to observe political proportionality when the membership is set. However, in practice Code of Conduct Panels will have to be set up relatively quickly and therefore it is proposed that membership of each Panel is based on the availability of members. This is a variation of the proportionality rules which would otherwise require Cllr Mrs Temperton to sit on every Panel.
- 5.10 In order to ensure that there will always be an independent co-opted member on the Panel a pool of at least five people will be maintained and will be comprised of three people who are not parish/town or Borough councillors, referred to as independent co-opted members; and two parish/town councillors who are not Borough councillors, referred to as parish/town council representatives.
- 5.11 When a complaint concerns a Borough councillor in that capacity, the independent co-opted member will be one of the three co-optees who are not parish/town or Borough councillors, and when a complaint concerns a parish/town councillor in that capacity, the independent co-opted member will be one of the two parish/town councillors who are not Borough councillors.

- 5.12 A Panel will not proceed without an independent co-opted member unless the agreement of the Governance & Audit Chairman and Monitoring Officer has been received.

*Independent co-opted members*

- 5.13 David St John Jones will be one of the co-optees who are neither parish/town nor Borough councillors, in his capacity as the independent co-opted member of the Governance & Audit Committee. It is proposed that the remaining two independent co-optees are Heather Quillish, a previous Standards Committee member and Khan Juna, former chairman of the Thames Valley Police Authority.

*Parish/town council representatives*

- 5.14 Nominations have been sought from the parish/town councils for two representatives. They have agreed the order in which nominations will be made and that each representative will remain in the pool for two years. The first two representatives will be drawn from Bracknell Town Council (Cllr Diana Henfrey has been nominated) and Winkfield Parish Council (Cllr Bob Shurville has been nominated).

**Remuneration**

- 5.15 The current Members Allowances Scheme makes provision for co-optees to be eligible to claim travel and subsistence for out of Borough approved duties in the same way as councillors. Any costs arising are likely to be small and will be met from existing budgets.
- 5.16 The Councils' Independent Remuneration Panel (IRP) will be convening in the Autumn 2017 to review the Members Allowances Scheme and will be asked to consider whether there should be any form of co-optees' allowance for the people in the pool as there is no provision for this in the current Scheme. A small allowance was payable to the independent co-opted members of the Standards Committee. Any costs arising from the IRP's recommendations will be met from existing budgets.

**6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 There are no financial implications of the recommendations as any related costs are likely to be small and can be met from within existing budgets.

Equalities Impact Assessment

- 6.3 Not required.

Strategic Risk Management Issues

- 6.4 Not relevant.

Other Officers

- 6.5 None.

**7 CONSULTATION**

Principal Groups Consulted

7.1 Councillors through the Standards Framework Working Group.

Method of Consultation

7.2 Meetings.

Representations Received

7.3 The Working Group's recommendations formed part of the proposals to Council and this Committee.

Background Papers

None

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