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Scrutiny & Audit Panel
12 November 2020

Membership:

Councillors: Barnes (Chairman), Taylor, Smith, Hamilton, Evans, Lambert and Osborne

You are requested to attend this meeting to be held Via Webex at:
https://esfrs.webex.com/esfrs/j.php?MTID=e92a76e157eafcbb92dcc616e11e9f5d8
Password: nfNbrJTm258 at 10.00 am

Quorum: 3

Contact:	Ellie Simpkin, Democratic Services Officer 01323 462085, democraticservices@esfrs.org

Agenda

15. Declarations of Interest

In relation to matters on the agenda, seek declarations of interest from Members, in accordance with the provisions of the Fire Authority's Code of Conduct for Members

16. Apologies for Absence

17. Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items

Any Members wishing to raise urgent items are asked, wherever possible, to notify the Chairman before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgently

18. Minutes of the last Scrutiny & Audit Panel meeting held on 23 July 2020 **5 - 12**

19. Callover

The Chairman will call the item numbers of the remaining items on the open agenda. Each item which is called by any Member shall be reserved for debate. The Chairman will then ask the Panel to adopt

without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called

20.	**Internal Audit Report - ESFRS Procurement Cards** Report of the Assistant Director Resources/Treasurer	**13 - 46**
21.	**Redmond Review** Report of the Assistant Director Resources/Treasurer	**47 - 138**
22.	**2nd Quarter Risk Register Review 2020/21** Report of the Assistant Director Resources/Treasurer	**139 - 154**
23.	**2nd Quarter Performance Results 2020/21** Report of the Assistant Director Planning & Improvement	**155 - 170**
24.	**Service Delivery Review** Report of the Assistant Chief Fire Officer	**171 - 180**
25.	**ESFRS Preparedness and Response to Covid 19 Pandemic** Report of the Assistant Chief Fire Officer	**181 - 192**
26.	**ESFRS Preparedness for the End of the EU Transition Period** Report of the Assistant Chief Fire Officer	**193 - 200**
27.	**Fire Authority Governance - Update Report** Report of the Senior Democratic Services Officer	**201 - 206**

28. Exclusion of the Press and Public

To consider whether, in view of the business to be transacted or the nature of the proceedings, the press and public should be excluded from the remainder of the meeting on the grounds that, if the public and press were present, there would be disclosure to them of exempt information.

NOTE: Any item appearing in the confidential part of the Agenda states the category under which the information disclosed in the report is confidential and therefore not available to the public.

29.	**Information Security Management - Update** Report of the Assistant Director Resources/Treasurer	**207 - 210**

ABRAHAM GHEBRE-GHIORGHIS
Monitoring Officer
East Sussex Fire Authority
c/o Brighton & Hove City Council

Date of Publication: 4 November 2020

Information for the public

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SCRUTINY & AUDIT PANEL

Minutes of the meeting of the SCRUTINY & AUDIT PANEL held virtually at 10.00am on Thursday, 23 July 2020.

Present: Councillors Barnes (Chairman), Evans, Hamilton, Lambert, Osborne, Smith and Taylor

Also present: D Whittaker (Chief Fire Officer), M O'Brien (Deputy Chief Fire Officer), M Andrews (Assistant Chief Fire Officer), L Woodley (Deputy Monitoring Officer), D Savage (Assistant Director Resources/Treasurer), L Ridley (Assistant Director Planning & Improvement), M Matthews (Assistant Director Safer Communities), H Scott-Youldon (Assistant Director People Services), P Jassal, N Chilcott, G O'Reilly, L Stevenson, J Sarpong, C Porter, C George, E Simpkin and A Blanshard

1 Declarations of Interest

There were none.

2 Apologies for Absence

There were none.

3 Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items

There were none.

4 Minutes of the last Scrutiny & Audit Panel meeting held on 21 May 2020

RESOLVED: That the minutes of the meeting of the Scrutiny & Audit Panel held on the 21 May 2020 be approved as a correct record and signed by the Chairman.

5 Callover

Members reserved the following items for debate:

6 Internal Audit Annual Report and Opinion for the period 1 April 2019 to 31 March 2020

8 2020/21 1st Quarter Risk Register Review

9 2019/20 4th Quarter Performance Results

10 Grenfell Tower Enquiry – Update on Service Action Plan

12 Outcome of Internal Audit into Compliance with Disciplinary, Grievance, Harassment and Bullying Procedures 2019/20

RESOLVED: That all other reports be resolved in accordance with the recommendations as detailed below.

6 Internal Audit Annual Report and Opinion for the period 1 April 2019 to 31 March 2020

The Panel received the report of the Assistant Director Resources/Treasurer (ADR/T) providing Members with an opinion on East Sussex Fire Authority's internal control environment and report on the work of Internal Audit for the period 1 April 2019 to 31 March 2020.

The report explained that on the basis of the audit work completed, the Orbis Chief Internal Auditor, as East Sussex Fire Authority's (ESFA) Head of Internal Audit, was able to provide reasonable assurance that the Fire Authority had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020. Individual reports on the systems evaluated by internal audit included agreed actions to enhance controls and action plans had been created to implement these.

Members wanted reassurance that the effects of the proposed IRMP would be addressed particularly with regard to Fire Safety and RDS vehicles. The Assistant Director Safer Communities (ADSC) explained that an improvement had been seen with Business Safety Audits, there had been a big increase, the target in the IRMP would be 1500. The improvements included in the Operational Response Review should place the service in a strong position.

The Deputy Chie Fire Officer (DCFO) reminded Members that there were intricate arrangements regarding second appliances outlined in the proposed IRMP. Fleet movements were proposed and he reassured Members that lessons learnt would be applied. The ADR/T added that there were a number of areas where there were cost pressures within engineering and that there was work underway to improve budget monitoring in this area.

RESOLVED: The Panel agreed to:

i. note the Head of Internal Audit's opinion on the Fire Authority's internal control environment for 2019/20;

ii. note that the full reports on RDS Pay Follow Up, Procurement Cards and Compliance with Disciplinary, Grievance, Harassment and Bullying Procedures would be reported to SLT and to Scrutiny & Audit; and

iii. that the Fire Authority's system for internal audit had proved effective during 2019/20.

7 Contract Standing Orders - Waivers Summary July 2019 to July 2020

The Panel received the report of the Assistant Director Resources/Treasurer (ADR/T) apprising them of the waivers granted in the remainder financial year 2019/20 and thus far in 2020/21, as required by the Contract Standing Order (CSO) 7.4.

The Panel was informed that four wavers had been approved from July 2019 to date. Each had ben considered on the basis that the Authority could achieve value for money, were below the threshold and therefore subject to internal governance arrangements only. The Government issued a Procurement Policy Note setting out flexibilities open to public bodies under the Public Contract Regulations during the coronavirus crisis, which allowed for some exemptions also under the EU legislative process, where appropriate.

No waivers had been granted on the basis of expediency alone. In the main the waivers were granted in order to align with collaborative arrangements within the Bluelight sector and to mitigate limited market options and/or any risk to supply, including those resulting from the impact of the Covid 19 pandemic.

RESOLVED: The Panel noted the report and did not require any further information on its contents.

8 2020/21 1st Quarter Risk Register Review

The Panel considered the report of the Assistant Director Resources/Treasurer (ADR/T) which presented Members with the latest quarterly review of Corporate Risk.

Members asked whether the Service was risk planning for the winter and the increased potential for staff sickness as a result of the combination of winter flu and Covid 19 including consideration of providing flu jabs to all staff. The Assistant Director People Services (ADPS) explained that the Covid Working Group had recognised the predicted second wave of Covid 19 and were considering the potential impact. The Services Business Continuity Plan had been reviewed and shoed that the Service could stand up to a second wave of Covid 19 and winter flu. The possibility of flu jabs was being explored with the Service's occupational health provider and sickness continued to be monitored daily.

RESOLVED: The Panel agreed to the Quarter 1 Corporate Risk Register.

9 2019/20 4th Quarter Performance Results

The Panel received the report of the Assistant Director Planning & Improvement (ADP&I) which presented Members with a summary of Service performance for the fourth quarter and year end results for 2019/20.

Members sought clarification regarding the figures for Accidental Fire Alarms (AFA) these seemed to show that they had declined and increased. The

ADPI explained that the calls to AFA's had declined, but they had not declined but the target amount set by the Fire Authority of 32%. Members agreed that progress had been made but that this was a critical target and whilst there had been a lot of work to date there was a lot more that needed to be done.

Members asked, in light of Covid 19, how home safety visits (HSV) were likely to be conducted. The ADSC explained that HSV's were a flagship service to the public. During the pandemic, the Service had been conducting "virtual" HSV's. These were scripted and contained questions and could be used to mobilise other services if required. In person visits were still being conducted to those who were deemed to be exceptionally high risk, including where necessary the fitting of smoke alarms. The Service had over 1600 interactions with the public during the pandemic including making phone calls to those who had been flagged as socially isolated to check on their welfare.

RESOLVED: The Panel considered:

i. the performance results and progress towards achieving the Service's purpose and commitments as contained in Appendix 1 to the report;

ii. the performance results and remedial actions that had been taken to address areas of under performance in the Fire Authority's priority areas; and

The Panel then:

iii. noted and agreed the changes to performance reports that would come to the panel from quarter 1 2020/21.

10 Grenfell Tower Enquiry - Update on Service Action Plan

The Panel received the report of the Assistant Chief Fire Officer (ACFO) providing Members with an update on progress made by officers against the various recommendations contained within the Grenfell Tower Inquiry Phase 1 report and specifically the ESFRS Grenfell Tower action plan. The report also updated Members on proposed new legislation emerging from the aftermath of the Grenfell Tower Fire namely The Fire Safety Bill and Building Safety Bill.

Members thanked the ACFO for an important and detailed report. They were informed that at the last meeting of the LGAAA Fire Commission it had been deemed that Fire & Rescue Services should not be held responsible for issues with construction. Responsibility needed to be taken at a Local Authority level, particularly Planning and Building Control inspections. Collaboration points were in turn important, including the importance of control rooms. There was a general opinion that there was a need for integrated working, not only relating to cladding.

The ACFO took the Panel through the key points of the report, this was a progress update in response to Phase 1 of the inquiry, it was very clear that

the Service still has its attention on matters resulting from Grenfell Tower and crucial safety developments were very much underway.

The Fire Survival guidance policy has assisted Fire Control staff to better speak with victims and pass this information on to the fire site, it has built on and strengthened the relationship between scene commanders and fire control officers.

The ACFO then explained that the a fundamental part of Project 21 had been the “intra” and “inter” operability, meaning the way that the Service worked with not only West Sussex and Surrey Fire Services but also sharing with other agencies. There had been positive funding from central Government to assist with the improvement planning.

The ACFO reminded the Panel that this report was focussed on operational matters, there was a very clear difference between this and the matters that will be covered in phase 2 of the inquiry which would be focussing on development and the roles of Local Authorities. But it was important to note at this stage that ESFRS had a good relationship with its local and housing authorities.

The ACFO reassured Members that there was not much improvement needed with regards to Fire Safety in light of the inquiry, the proposed Bill builds on action already taken to ensure that people feel safe in their homes and a tragedy like the Grenfell Tower fire never happens again. The major outstanding issues were relating to the issue of development, including Building Control, fire consultation and information sharing. The Building Safety Regulator proposed within the Health and Safety Executive would be responsible for implementing and enforcing a more stringent regulatory regime for higher risk buildings and oversight of safety and performance across all buildings.

The ACFO concluded by informing Members that he was proud and confident in the teams and how excellently they performed in making operational decisions in a dynamic way.

Members expressed some concerns about whether the budget restraints that the Service was facing would hamper its ability to meet regulations, there was some concern around the potential loosening of planning laws, particularly those relating to the conversion of office premises into residential. The ACFO explained that the sector had received protection on surge funding for officers involved in inspecting high-rise residential. The Audit report also showed progress on risk based inspection. It was inevitable that there would be some budget pressures, but the sector would continue lobbying government for funding streams to continue. The Panel agreed that this lobbying was important and that local MPs needed to be reminded of what the Service needed in terms of funding. The ADR/T added that the NFCC, LGA and Home Office were also lobbying the Treasury directly. The CFO confirmed that a letter would be sent in the summer to the local MPs from the Charman

and Vice-Chair informing them of the needs and challenges to the Service and inviting them to meet in the autumn to discuss in person.

11 Primary Authority Progress Report

The Panel received the report of the Assistant Chief Fire Officer (ACFO) which provided them with an update on the progress of the Primary Authority scheme and how this was improving business engagement and business training activities in support of the delivery of the Business Fire Safety Thematic Plan.

Since approval in November 2018 Primary Authority partnership income had been invoiced at £17,805, including additional income from the partnerships where ESFRS acted as supporting regulator.

To ensure the continued growth and success of the Service's Primary Authority scheme, in February the Senior Leadership Team had approved the appointment of a permanent Primary Authority manager. This role now provided consistent oversight and leadership for the partnerships whilst managing wider business engagement and potential new partnerships. The Primary Authority manager has provided direct expert advice and support to partners during the Covid 19 pandemic, in particular those providing care to the most vulnerable.

RESOLVED: The Panel:

i. noted the report and supported continued engagement with key businesses in further growing and developing the East Sussex Fire Authority (ESFRS) Primary Authority scheme;

ii. supported the Services' engagement with the Business Advice and Support Partnership (BAASP) and the promotion of Primary Authority through our local Growth Hubs and the 'Sussex Business Excellence' programme; and

iii. noted the transfer of the Safer Business training program to the Business Safety support team, which will allow the Primary Authority manager to expand the Business Safety engagement activities to include the "Safer Living & Safer Care" initiatives, currently being developed through the Business Safety Thematic Plan.

12 Outcome of Internal Audit into Compliance with Disciplinary, Grievance, Harassment and Bullying Procedures 2019/20

The Panel received the report of the Deputy Chief Fire Officer apprising Members of the outcome of the internal audit undertaken into the Service's compliance with disciplinary, grievance, harassment and bullying procedures which took place in 2019.

Members felt that the results of this audit reflected the need for investment in HR and related services and asked that confirmation be given that this was happening. The Assistant Director People Services (ADPS) explained that whilst the Service was not currently fully staffed in HR, there had been a huge amount of work conducted into what was needed there were currently four vacancies being advertised, all job descriptions had been reviewed in line with requirements of both the department and the Services as a whole. One critical post had been created, that of Organisational Development Manager. The People Strategy was also under development and as this was a transactional department there was a need to lean towards development and a cultural shift.

The ADPS further explained that the Service's Dignity at Work and Bullying at Work had been amalgamated to ensure that all are treated with dignity across the workplace. HR had worked closely with the Audit team to inform an updated manual note, legal advice had been sought regarding timescales and there's were broad but reasonably expected. A renewal of the Grievance Policy was now complete. Organisational learnings had been considered, it had been concluded that investigations were taking too long, one reason being that investigations were a 'bot-on' and as such the Service were exploring the use of external support when needed. On the whole Members agreed with this approach and were reassured that any external support would be aided by a HR Business Partner. The intention of all these changes was that the Service would provide a people centred HR approach.

The Organisation had approved a leadership framework which had been due to launch in April 2020 but had been postponed until 2021 due to Covid 19. As an interim arrangement managers were being upskilled in their approach to change management.

RESOLVED: The Panel agreed to:

i. note the outcome of 'partial assurance' of the internal audit undertaken in to the Service's compliance with its disciplinary, grievance, harassment and bullying procedures; and

ii. note the improvement plan and the measures already implemented which would be scrutinised with a follow-up audit in 2020/21

13 Annual Report of the ESFRS Local Firefighters Pension Board 2019/20

The Panel received the report of the Pensions Advisor informing Members of the matters considered by the Pension Board during 2019/20.

The Board had met on three occasions during the previous year and had considered reports on such matters as the renewed Terms of Reference for the Pension Board, policies and guides for the board and the Firefighters Pension Scheme (FPS) and other current issues and updates relating to the Authority's FPS.

RESOLVED: The Panel agreed to note the annual report of the Firefighters' Pension Board for 2019/20.

14 Member Attendance Annual Report 2019/20

The Panel received the report of the Democratic Services Officer detailing Member attendance at formal Fire Authority meetings, community events and Member breifign/development events for 2019/20.

Member attendance for all formal Fire Authority meetings was first report at the Annual Fire Authority on 13 June 2019. At this meeting it was agreed that future reporting on Member attendance would be made to the Scrutiny & Audit Panel on an annual basis for monitoring purposes.

Feedback on the report format had been considered and information on substitutions and a summary of attendance at community engagement events and Member briefing and development opportunities had now been included.

RESOLVED: The Panel noted the Member attendance for 2019/20.

The meeting concluded at 11.21 am

Signed

Chairman

Dated this day of 2020

EAST SUSSEX FIRE AUTHORITY

Meeting	Scrutiny & Audit Panel
Date	12 November 2020
Title of Report	Internal Audit Report – ESFRS Procurement Cards
By	Duncan Savage, Assistant Director Resources / Treasurer
Lead Officer	Claire George, Procurement Manager

Background Papers None

Appendices

1. ESFRS Procurement Cards Final Report – June 2020

Implications

CORPORATE RISK	✓	**LEGAL**	
ENVIRONMENTAL		**POLICY**	✓
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT **To update on the findings and assurance opinion of the Internal Audit Report, undertaken in 19/20.**

EXECUTIVE SUMMARY

Internal Audit conducted an audit of the processes and policies which support Procurement Card (PCard) capability within ESFRS, in line with the agreed audit plan for 2019/20.

The audit sought to provide assurance that PCards are only issued to appropriately authorised and trained staff, that policy is being adhered to and to establish whether the introduction of the PCard programme has reduced the volume of low value purchase orders and invoices being processed. The findings recognise robust processes are in place for the issue of cards and the auditing of transactions, however, it has also identified that improvement is required in relation to compliance with policy, training and reducing the volume of low value invoices and purchases.

	The report concludes that Partial Assurance is provided in respect of PCards at this time.
RECOMMENDATION	To note the final audit report, its opinion and recommendations & consider whether any further information is required.

1. INTRODUCTION

1.1 Used appropriately, Procurement Cards (PCards) are a flexible way for staff to buy goods and services. Benefits include being able to buy direct from the internet and local suppliers, enabling more efficient purchasing and better pricing. The card streamlines the procurement process by replacing the need for petty cash, cheque requests, cash advances, low value requisition purchase orders and is particularly useful for a one-off purchase from a supplier.

1.2 As of 11th December 2019, there were 116 PCard holders across ESFRS. Between 1st April 2019 and 2nd December 2019, 1,932 PCard transactions were made with a total value of approximately £778k.

1.3 This audit has sought to provide assurance that PCards are only issued to appropriately authorised and trained staff and are being used only to purchase goods and services that are wholly, exclusively and necessary for the use of ESFRS. It also aimed to establish whether the introduction and roll-out of the PCard programme has delivered the targeted process efficiencies intended, by reducing the number of low value purchase orders and invoices that have been raised.

2. SCOPE OF AUDIT

2.1 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Purchase cards are issued in accordance with ESFRS policy;
- Cards are only issued to appropriately authorised and trained employees;
- Cards are only used for goods and services wholly, exclusively and necessarily for ESFRS use; and
- Purchases are subject to appropriate review, authorisation and reconciliation, in a timely basis.

3. SUMMARY FINDINGS

3.1 Audit were able to give partial assurance against the scope described.

15 priorities were identified, of which none were considered high risk, 13 were considered medium and 3 low.

3.2 The Auditors acknowledged that there is a robust process in place for PCard applications and approval and that cards are only issued to officers once they have completed the ILearn training course, prior to receiving the card. Controls surrounding issuing of PCards is operating as intended and testing revealed that all of the cardholders sampled had completed the card's Terms and Conditions as expected.

3.3 Monthly audit activity is identifying any anomalies in the spend and cardholders are contacted directly for evidence to support the validity of the purchase.

3.4 Priorities and clear areas for improvement relate in the main to compliance with the reconciliation process, a reduction in the volume of low value invoices and purchase orders, tax receipt retention, enhanced support for approvers and the need for greater clarity and support for all cardholders to adhere to the user guidance and the policy, which support the PCard programme.

3.5 As with any programme of change, communication is key. More effective engagement with the Service and better marketing of the benefits and responsibilities of PCard capability, will be fundamental to improve both usage and compliance.

4. RESPONSE

4.1 Procurement cards have now been widely adopted by the Service & the audit has been an important and informative exercise in identifying where we have gaps and where we must target improvements. It is clear that the areas for focus are compliance and usage in the areas where they add most value.

4.2 Procurement are conducting a post implementation review, to address the audit findings specifically but crucially we will also be gathering feedback from cardholders and approvers, to further enhance our understanding of what is working, what is not and how we can improve compliance, which remains an ongoing issue. Procurement continue to proactively support staff to reconcile promptly and whilst we have seen some cultural resistance, better communication as to why it is vital is key, to help colleagues understand the necessity of the timebound process. The review will also assess options for additional technological support in this area, including the viability of an associated app to aid reconciliation.

4.3 PCards deliver greatest value when used for high volume, low value supplies and for one-off purchases and it is disappointing that we have not yet seen a significant reduction in the volume of low value purchase orders and invoices.

Procurement & Finance will be conducting a joint review of the Procure to Pay process, which will include objectives to reduce the number of low value invoices.

The planned PCard review will also include the identification of low value invoice hotspots and seek to understand how we can further embed use of PCards in those areas. We will be analysing the data we already have, by looking at each individual PO raised to understand why a PCard was not used & then targeting the barrier in that particular area (be it cardholder confidence, supplier enablement, limit reached

that month, lack of cardholder/adequate approver cover etc). Going forward, we will report this monthly until no further reduction can be achieved.

To support this, the data collected as part of the category strategy approach has already identified commodities, suppliers and business areas where we see high numbers of low value transactions. The category strategies are designed to target those areas and actions include encouraging adoption of PCard payments and where appropriate, changing suppliers to facilitate this, where resilience and supply are not compromised.

4.4 Procurement will improve communication with colleagues. We will review the guidance to ensure it is accessible and straightforward. We must proactively market PCard capability within the Service, to ensure staff are aware of the advantages and feel competent in their use. We will better publicise the How to Buy area of the intranet, to encourage further card usage and also ensure staff are aware of our contracted suppliers. This area provides up to date information and log-ins for ordering all consumables. It includes information as to asset marked items and supplier order forms.

5. CORPORATE RISK

5.1 A material reduction in low value purchase orders raised since the programme's inception has not been achieved. Analysis of purchase order data for the six months preceding the rollout of the PCard Programme, and the six months following its introduction identified that although there had been a reduction in the amount of PO's raised under £1,000, PO's under £250 had increased. Where the volume of low value purchases being raised has not decreased, this could result in the PCard Programme objectives not being achieved. Procurement will take the steps described above to address this.

5.2 Audit testing identified that three out of ten transactional approvers sampled had not undertaken the iLearn training course as expected. This is clearly stated in the user guide. Procurement will reinforce the message to all approvers that the training is mandatory & that they must successfully complete the e-learning training for Approvers prior to undertaking the activity.

5.3 If purchases are not authorised promptly this increases the risk that cards could be used inappropriately and the inappropriate use not being identified by management. Staff will be reminded of the importance of regular & prompt reconciliation.

6. FINANCIAL

6.1 It is generally accepted that every transaction completed by card saves ESFRS £28.00 in purchase order and invoice processing costs The PCard Programme was designed to make it easier and more cost effective for ESFRS to make low value purchases for goods and services below £1,000, for service use.

Audit identified cardholder transactional limits as of 6 January 2020, 26 out of 106 cardholders had single transaction limits in excess of £1,000, the highest being £10,000.

In addition to targeting increased usage of PCards, to fully realise the benefits of PCards, transactions limits will be capped at £5000.

6.2 If VAT is not correctly accounted for and adequate receipts are not retained this could lead to penalties and financial loss for ESFRS. Where VAT is not claimed or incorrect VAT is claimed, ESFRS becomes liable. Cardholders will be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required.

7. POLICY IMPLICATIONS

7.1 Procurement will reinforce the message to all approvers that the training is mandatory and ensure that any future iterations of the policy reflect this.

7.2 As described, it has been agreed with Treasurer that a maximum transaction limit of £5000 will be applicable to all current cardholders and future card applications and card request documentation will be amended accordingly.

7.3 ESFRS do not currently have a mandated Leavers Policy. In the absence of a corporate leaver's process, the return of PCards is manually coordinated by the Procurement Card Administrator, however there is scope to coordinate this as part of a corporate exit process, to include all issued items such as PCards, IT & uniform.

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Internal Audit Report

ESFRS Procurement Cards 2019/20

Final Report

Assignment Lead: Danielle Robinson, Senior Auditor
Assignment Manager: Nigel Chilcott, Audit Manager
Prepared for: East Sussex Fire & Rescue Service
Date: June 2020

Draft Report Distribution List

Duncan Savage, Assistant Director - Resources & Treasurer
Claire George, Procurement Manager
Patricia Steel, Procurement Card Administrator
Chris Watkins, Senior Financial Services Administrator

Final Report Distribution List

As per draft report circulation

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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1. Introduction

1.1. Used appropriately, Procurement Cards (PCards) are a flexible way for staff to buy goods and services. Benefits include being able to buy direct from the internet and local suppliers, enabling more efficient purchasing and better pricing. The card streamlines the procurement process by replacing the need for petty cash, cheque requests, cash advances, low value requisition purchase orders and is particularly useful for a one-off purchase from a supplier.

1.2. As of 11th December 2019, there were 116 PCard holders across ESFRS. Between 1st April 2019 and 2nd December 2019, 1,932 PCard transactions were made with a total value of approximately £778k.

1.3. This audit has sought to provide assurance that PCards are only issued to appropriately authorised and trained staff and are being used only to purchase goods and services that are wholly, exclusively and necessary for the use of ESFRS. We also aimed to establish whether the introduction and roll-out of the PCard programme has delivered the targeted process efficiencies intended by reducing the number of low value purchase orders and invoices that have been raised.

1.4. This review is part of the agreed Internal Audit Plan for 2019/20.

1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

1.6. The findings in this report are based on a review of the control environment before the national response to COVID-19. Any assurance given does not extend to interim measures or changes to management arrangements implemented due to COVID-19.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Purchase cards are issued in accordance with ESFRS policy;
- Cards are only issued to appropriately authorised and trained employees;
- Cards are only used for goods and services wholly, exclusively and necessarily for ESFRS use; and
- Purchases are subject to appropriate review, authorisation and reconciliation, in a timely basis.

3. Audit Opinion

Partial Assurance is provided in respect of **ESFRS Procurement Cards (PCards) 2019/20**. This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

4.1. We have only been able to provide **Partial Assurance** over the controls operating within the area under review because there are levels of non-compliance with ESFRS' Procurement Card (PCard) policies and procedures. Existing policies should be reviewed in line with the findings in our review. Doing so will minimise ambiguity over expected processes and obligations by both the cardholder and transactional approvers.

4.2. There is a large responsibility placed on approving managers within the PCard process, however, training had not been received by all of the approvers sampled.

4.3. The establishment of a clear purchasing framework is required to ensure that the objectives of the PCard Programme are achieved.

4.4. In the majority of cases, valid receipts were not being uploaded into the Smartdata system. The failure to retain or obtain valid receipts/VAT receipts is contrary to procedures and could result in ESFRS being subject to financial penalty from HMRC. Furthermore, inconsistencies should have been identified and rejected by transactional approvers.

4.5. The development of a robust leaver process is required. This will ensure that cards are not used inappropriately by officers who are suspended from duties or have left ESFRS (although no evidence of this was observed during the audit).

4.6. Purchase cards are an efficient method for making low value high volume payments. However, there has not been a reduction in the amount of low value purchases orders raised since the roll-out of the PCard programme.

4.7. There following areas of compliance and good practice were identified, which ESFRS should look to maintain:

4.8. There is a robust process in place for PCard applications and approval.

4.9. There was evidence that cards are only issued to officers once they have completed the ILearn training course prior to receiving the card.

4.10. Controls surrounding issuing of PCards are operating as intended. Testing revealed that all of the cardholders sampled had completed the card's Terms and Conditions as expected.

4.11. Monthly audit activity takes place and, where anomalies are identified, cardholders are contacted directly for evidence to support the validity of the purchase. However, this process could by strengthened further by utilising the reporting functionality in the Smartdata system and by enforcing the mandatory addition of a narrative to all purchases.

Audit Opinion Direction of Travel		
Improved	**Unchanged**	**Reduced**
	Not Applicable	

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	12	1,4,5,6,7,8,9,10, 12,13,14,15
Low	Represents good practice but its implementation is not fundamental to internal control	3	2,3,11
	Total number of agreed actions	**15**	

6. Acknowledgements

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	**E-Learning for Approvers** Part 5 of the Procurement Card Administrators (PCA) Guide stipulates that new approvers must be enrolled on the Approver iLearn module. Our compliance testing identified that three out of ten transactional approvers sampled had not undertaken the iLearn training course as expected. Furthermore, the PCA confirmed that the completion of the iLearn training for transactional approvers is not mandatory or enforced. Procurement Card (PCard) transactional approvers are only required to complete the iLearn training course if they possess a PCard for their own use. However, the PCard User Guide clearly states that procedures and instructions set out in the guide are mandatory for all Cardholders, their Line Managers/Approvers and all staff involved in the accounting process.	Where training is not undertaken by transactional approvers, this increases the risk that purchases are not effectively scrutinised for adequacy or appropriateness.	Medium	This is clearly stated in the user guide. Procurement will reinforce the message to all approvers that the training is mandatory & that they must successfully complete the e-learning training for Approvers prior to undertaking the activity. We will also ensure that any future iterations of the policy reflect this.

Responsible Officer:	Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	**Substitute Approvers** Substitute approvers are key to ensuring that transactions are reviewed and approved in the event the original approver is not available. Substitute approvers should be identified as another individual with the authority and ability to review transactions for validity in the same areas as the original approver. Our review identified that ESFRS' PCard Programme does not have a process in place for substitute approvers.	The lack of a substitute approver process may result in transactions not being reviewed on time.	Low	The RBS SDOL reconciliation software does not have the capability for substitute approvers. This ensures that only budget managers with direct responsibility for the expenditure can approve it. Procurement will seek to mitigate with the introduction of a second reviewer procedure, in the absence of a second approver.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	31 July 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	**Multiple Approvers** A cost centre is used by a budget holder to allocate spend. These are monitored to ensure the allotted budget is not exceeded. Our review of cardholder application forms identified a cardholder who had been assigned six differing transactional approvers. On discussion, the PCA advised that this was due to the cardholder purchasing items for different service areas.	The robustness of the review process is weakened where multiple approvers are assigned to an individual cardholder.	Low	It is the case that a small number of cardholders are required to purchase across more than one business area, e.g. Administrative Support roles to more than one Assistant Director. The PCA will explore if further cardholders can be identified to reduce instances.
Responsible Officer:		Patricia Steel - Procurement Card Administrator	**Target Implementation Date:**	31 July 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	**Transactional Limits** Our review of the PCard policy identified that a specific single transaction value and a monthly maximum spend value for cardholders has not been set. Card limits are set and approved by individual budget holders and are tailored to individual purchasing needs. The PCard Programme was designed to make it easier and more cost effective for ESFRS to make low value purchases for goods and services below £1,000, for service use. Our review of cardholder transactional limits identified that as of 6 January 2020, 26 out of 106 cardholders had single transaction limits in excess of £1,000, the highest being £10,000.	The lack of a clear purchasing framework could result in the objectives of the PCard Programme not being achieved.	Medium	Agreed with Treasurer that a maximum transaction limit of £5000 will be applicable to all current cardholders and future card applications and card request documentation will be amended accordingly.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	**Transactional Limit Changes** The PCard 'amendment request' form is completed by an appropriate level manager when changes to the cardholder's personal details, cost centres and transactional limits are required. During the audit, we were unable to obtain a list of forms that had been completed for changes to transactional limits. Obtaining a sample of changes that had been approved proved difficult.	Without a clear audit trail for changes to personal details and transactional limits, the ability to effectively scrutinise card amendments is reduced.	Medium	The PCA currently retains all change requests. The information captured at the point of change will be updated to reflect the nature of all changes made and the date processed. In future, the data recorded will include transaction limit amendments, change of personnel i.e. reviewer or approver and related cost centre information.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	31 July 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	**Asset Marked Items** Part 9 of the PCard User Guide clearly stipulates that purchases should not be made for any item of Operational Equipment but particularly those that require asset marking. These must be sourced via Engineering and they will be attributed to their budget. During the audit, concerns were raised over asset marked items being purchased outside of the Engineering Department. A review of transactions, with narrative, between 1 April 2019 to 8 January 2020, identified 44 transactions, with a total value of £10.5k that were for items that would be classified as asset marked. Of these, 19 transactions had not been purchased by the Engineering Department (total value £985.03). Moreover, the PCard User Guide does not contain a comprehensive list of items that are considered as 'asset marked' which may explain the lack of compliance.	Failure to adhere to the PCard policy leaves the ESFRS open to both financial and reputational risk, potentially resulting in fraud and loss of faith from the public.	Medium	Items that must be asset marked are clearly identified on the 'How to Buy' contracted supplier order forms, which state approval must be sought from Engineering prior to purchase. All cardholders will be reminded of the policy in relation to asset marked goods.

Responsible Officer:	Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
7	**Valid VAT Receipts** For some suppliers it may not be possible or very difficult to get a VAT invoice, particularly when the purchase can only be made online via card. However, we identified one instance where the payment confirmation for a hotel was uploaded as evidence, where it should have been possible for the cardholder to receive a full invoice. VAT can only be reclaimed with a valid VAT invoice (finding 12 refers). Given the finding above, we reviewed all transactions for hotel accommodation between 1 April 2019 to 8 January 2020. We identified 19 instances (out of 55 transactions) where VAT was recoverable but not appropriately claimed in the Smartdata system. The total value of unclaimed VAT by ESFRS for hotel accommodation for this period is £988.46.	If VAT is not correctly accounted for and adequate receipts are not retained this could lead to penalties and financial loss for ESFRS. Where VAT is not claimed or incorrect VAT is claimed, ESFRS becomes liable.	Medium	Cardholders will be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
8	**Adherence to PCard Policy** Data analysis of 2,240 purchase card transactions between the period 1 April 2019 to 8 January 2020, identified that the following items had been purchased, which (potentially) contravene Part 9 of the PCard User Guide: • 35 purchases with a value of £9,319.47 for IT hardware/software. Of these, 15 purchases were made by the ITG Department which may be acceptable although this is not reflected in the PCard Policy. • A further 3 transactions were identified for mobile phone equipment/data. • A number of meals had been purchased using the PCard but due to the lack of clear purchase narrative only 22 could be clearly identified as personal subsistence. Items such as these could potentially be in breach of the ESFRS' PCard policy and may not be considered an appropriate use of public funds. Purchases for subsistence (meals) for an operational crew at an incident are allowable but personal	Failure to adhere to the PCard policy leaves the ESFRS open to both financial and reputational risk, potentially resulting in fraud and loss of faith from the public.	Medium	The PCA has identified where transactions have been approved which were not appropriate and has challenged. ITG PCard purchases are acceptable. Occasionally purchase of IT equipment via PCard offers the optimum value for ESFRS as opposed to passing the order through our outsource provider. Cardholders and approvers will be reminded of the policy in relation to IT related purchases.

	subsistence, in any other situation is considered outside the scope of the PCard policy. Furthermore, best value may not be attained where items are not purchased via existing contractual arrangements.			
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
9	**Leaver Process** Full reliance is placed on the purchase card holder and/or their manager to inform the Purchase Card Administrator (PCA) when a purchase card is no longer required (for example, when the cardholder has left the employment of ESFRS or their job role has changed). There is no corporate leavers' process or procedure for recovering returned purchase cards. The cards may be returned to Finance or to the employee's manager. Once notified, the PCA will remove the leavers from the live list of purchase cards and will inform the bank that leaver's cards are no longer in use. It is important that there is a consistent process. Exception reporting to identify purchase inactivity, due to an officer leaving ESFRS or changing job role is not undertaken. Furthermore, the Human Resources department do not notify the PCard Administrator of staff departures or suspensions.	The lack of a robust leaver process could result in an employee using their card once they are no longer employed by the ESFRS.	Medium	ESFRS do not currently have a mandated Leavers Policy. Three staff have left since PCards were launched. Upon receipt of a PCF (personnel change form), the PCA checks the PCard database & contacts the cardholder concerned where one is held, to request return of the card. In the absence of a corporate leaver's process, this is manually coordinated by the PCA. Cardholders will be reminded of their responsibility to return their card, prior to leaving the Service.

Responsible Officer:	Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
10	**Low Value Purchase Orders** The PCard Programme was designed to make it easier and more cost effective for ESFRS to make low value purchases of goods and services, for service use. Generally, individual purchases of goods and services below £1,000 are considered as low value. While a number of factors influence this figure, it is generally accepted that every transaction completed by card saves ESFRS £28.00 in purchase order and invoice processing costs. Analysis of purchase order data for the six months preceding the rollout of the PCard Programme, and the six months following its introduction identified that although there had been a reduction in the amount of PO's raised under £1,000, PO's under £250 had increased. Therefore, a material reduction in low value purchase orders raised since the programme's inception has not been achieved. Results below: August 2019 to January 2020: • 270 - Purchase Orders <£1,000 • 96 - Purchase Orders <£250	Where the volume of low value purchases being raised has not decreased, this could result in the PCard Programme objectives not being achieved.	Medium	Procurement & Finance will be conducting a joint review of the Procure to Pay process, which will include objectives to reduce the number of low value invoices. The planned lessons learned PCard project review will also include the identification of low value invoice hotspots and seek to understand how we can further embed use of PCards in those areas. The category strategies include actions to encourage adoption of PCard payments for affected suppliers and where appropriate, ESFRS will consider switching suppliers to facilitate this.

	February 2019 to July 2019: • 231 - Purchase Orders <£1,000 • 130 - Purchase Orders <£250			
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	31 Dec 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
11	**Quarterly Spend Report** Paragraph 10 of the Purchase Card Administrators Guide stipulates that each month, with a summary each quarter, a PCard spend report is circulated to the Treasurer for review. On request, copies of the monthly spend report were provided for review. However, a quarterly summary of PCard spend had not been collated or circulated to the Treasurer, as expected, for review, since the commencement of the PCard Programme.	Inadequate reporting processes are in place resulting in a failure to identify excessive costs and trends in high spend by senior management.	Low	Procurement provide a monthly breakdown of spend to the Treasurer, to identify no. of transactions, spend by cardholder, cost centre and category. Reporting is in the early stages & this will be reviewed and agreed with the Treasurer, as we progress the lessons learned review. The policy will be updated to reflect monthly reporting, with KPIs fed into a Procurement Dashboard.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 Sept 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
12	**Transactional Errors** Throughout the audit we discovered instances where both the cardholder and reviewer had failed to adhere to ESFRS PCard Policy. Sample testing of ten transactions for cardholders who had the highest value in spend and/or purchase frequency identified the following: • A valid receipt was not available for one of the transactions tested. • VAT had not been appropriately claimed for four of the transactions sampled although valid VAT receipts were available on request. • There was one instance where a user had divided the transaction in order to circumvent their individual transaction limit. • For another transaction the receipt uploaded to the Smartdata system did not relate to the purchase. Moreover, all the above issues should have been identified by the reviewer during the review stage of the process in the	Without appropriate action taken at the review stage, this increases the risk that PCards are used contrary to the terms and conditions that the users and reviewers have agreed to. If VAT is not correctly accounted for and adequate receipts are not retained could lead to penalties by HMRC.	Medium	Approvers are required to check the receipt & ascertain that all associated documents are correct. The PCA undertakes dip testing and challenges any errors identified. There are legitimate occasions where requirements have been disaggregated. Cardholders will be reminded that they must wait for a VAT invoice before reviewing. Procurement will send out relevant communications to offer further support & training to support the accurate capture of VAT, to include guidance on the difference between a confirmation of order & a VAT receipt/invoice. The effectiveness of the e-learning package in relation to VAT capture, will also form part of the lessons learned review.

	Smartdata system and action taken to rectify the situation at the time or prevent it reoccurring.			
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 Sept 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
13	**Timely Review & Approval of Transactions** All transactions must be reviewed and reconciled by the cardholder in the Smartdata system by the 7th of every month, to ensure there is sufficient time for the transactional reviewer to approve the transaction by the 10th of each month. Analysis of the Purchase Card Spend Report confirmed that for the 2019/20 Financial year to date, an average of 242 purchases were made per month, of these 23% of all purchases had not been either reviewed or approved on time.	Late authorisation of payment may result in the ESFRS' financial commitments and budgets not being fully up to date. If purchases are not authorised promptly this increases the risk that cards could be used inappropriately and the inappropriate use not being identified by management.	Medium	This remains an ongoing issue. Procurement continue to proactively support staff to reconcile promptly but we have seen some cultural resistance. Both the lesson learned review and a joint P2P review with Finance will look to identify how we can improve performance in this area. This will include assessing options for additional technological support. Staff will be reminded of the importance of regular & prompt reconciliation.
Responsible Officer:		Claire George - Procurement Manager in conjunction with the Procurement & Finance Manager	**Target Implementation Date:**	Reminder - 30 June 2020 P2P Review – 31 Dec 2020

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
14	**Document Retention Process** Following a review of the PCard User Guide, it was established that the time frame for retaining evidence of a purchase by the cardholder, or in what format, for inspection by HM Revenue & Customs (HMRC) and audit purposes is not stipulated.	Failure to retain adequate proof of purchases and records may result in financial penalties by HMRC.	Medium	Procurement will remind staff that receipts must be retained for seven years.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2020.

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
15	**Ambiguity of document retention and review process** Our sample testing highlighted a lack of clarity amongst the cardholders sampled over the expected process for the retention of supporting documentation. Cardholders were found to be keeping original copies of receipts, whereas other officers were uploading copies of receipts directly onto the Smartdata system and destroying the original copy once this action had been completed. Another officer contacted Internal Audit for advice as he was undertaking both processes (finding 14 also refers).	Without clear guidance on the expected process for retaining receipts, there is a risk that cardholders may not retain purchase data in consistent manner. Failure to retain adequate proof of purchases may result in financial penalties by HMRC.	Medium	Procurement will update the User Guide to include clearer guidance.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	31 July 2020

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

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EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Scrutiny & Audit Panel
Date	12 November 2020
Title of Report	Redmond Review
By	Assistant Director Resources / Treasurer
Lead Officer	Duncan Savage, Assistant Director Resources / Treasurer

Background Papers None

Appendices

1. Redmond Review
2. Public Sector Audit Appointments' (PSAA) response

Implications

CORPORATE RISK		**LEGAL**	✓
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT **To inform the Panel of the Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting and seek its views on the reports main recommendations.**

EXECUTIVE SUMMARY

The Government commissioned an independent review into the effectiveness of local audit and the transparency of local financial reporting by Sir Tony Redmond which was published in September 2020.

The review concludes that that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the Local Audit and Accountability Act 2014. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny.

The evidence is compelling to suggest that the current audit service does not meet those standards.

Some of the key findings within the report are as follows:

- Over 40% of local authority account for 2018/19 had not been subject to completed audits by the statutory deadline
- The external auditor's vfm conclusion offers little value
- Local auditors are often lacking in knowledge of local government finance
- Audit Committee members do not always have the requisite skills or experience to understand the accounts or the auditor's report
- The transparency of audit outcomes to the public needs to be improved
- External audit does not place sufficient reliance on the work of internal audit
- The statutory accounts are impenetrable
- Review of property plant and equipment and pensions valuations have added complexity and cost to the audit process
- The oversight of local audit is fragmented and ineffective
- Audit fees have reduced by 42% since 2015 and this has impacted both on the quality of the audit and on the local audit market

The report makes a total of 23 recommendations which can be summarised as follows:

External Audit Regulation

1 & 2. The establishment of a new body the Office of Local Audit & Regulation (OLAR) to manage, oversee and regulate local audit taking on responsibilities from various existing bodies.

3. The establishment of a stakeholder Liaison Committee chaired by MHCLG.

4. Changes to governance arrangements within local authorities including the submission of an annual report to Full Council by the external auditor and consideration of the appointment of at least one independent member, suitably qualified to the Audit Committee.

5. Improved provision of skills and training to external auditors

6. Revision of the fee structure for local audit

7. Enforcement of audit quality by OLAR

8. Revisions to statute to ensure audit forms with the necessary capacity, skills and experience are not excluded from bidding for local audit work.

9. External audit should draw on the expertise and knowledge of internal audit

10. The deadline for publishing local authority accounts reverts to 30 September

11. There is consultation with the Health sector regarding the timing of audits

12. The external auditor should present the Annual Audit Report to the first full Council meeting after 30 September

13. OLAR to review the effectiveness of external audit consideration of financial resilience and value for money in line with the 2020 Audit Code of Practice.

Smaller Authorities Audit Regulation
14-16 Changes to the regulation of smaller authorities' audit.

Financial Resilience
17. MHCLG reviews its approach to seeking assurance on the financial sustainability of local authorities.

18. Local auditors and inspectorates should share concerns relating to service and financial viability of local authorities.

Transparency of Financial Reporting
19 - 21. A simplified statement of service information and costs be prepared that sits alongside the statutory accounts, is subject to external audit and communicated to local communities.

22. CIPFA / LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare a standardised statement, to see if they can be simplified.

23. That improvements are made to the Annual Governance and Accountability Return prepared by smaller authorities.

The report notes that implementation of its recommendations would, in part, require regulatory or legislative change, however, changes to fee structure rest with PSAA, skills and training for local audit staff rests with the audit firms, simplification of the statement of accounts with CIPFA and local governance including the appointment of independent members to Audit Committees rests with local authorities.

In addition there are a number of other reviews which whilst not specifically aimed at the public sector may influence local audit and the audit market more generally:

- The Brydon Review of the Quality and Effectiveness of Audit
- The Competition & Markets Authority Review of the UK audit market
- The Kingman Reviews of the Financial Reporting Council and Audit Procurement

A Government response the Redmond Review is expected in due course.

A copy of the PSAA response to the Review is attached at Appendix 2.

RECOMMENDATION

The Panel is recommended to:

(i) Consider and comment upon the recommendations in the Redmond Report;
(ii) Identify any local improvements it wishes to make as a result.
(iii) Consider whether it wishes to establish a working group to track national developments and advise the Panel on its local response to the Redmond Report

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Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Sir Tony Redmond
September 2020

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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September 2020

The Rt Hon Robert Jenrick MP

Secretary of State for Housing, Communities and Local Government
Ministry of Housing, Communities & Local Government
2 Marsham Street
London, SW1P 4DF

Dear Secretary of State,

In June 2019, I was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. I am grateful for the opportunity given to me by ministers to conduct this Review. Whilst conducting the Review my guiding principles have been accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.

This report sets out my conclusions. It makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

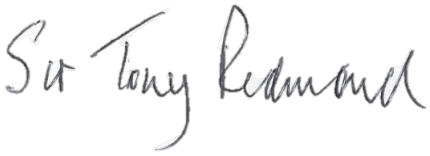
As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

It will be possible to achieve part, but only part, of what needs to be done without legislation. However, it is important to emphasise that to fully achieve the vision set out in the Review, primary legislation will be essential. Only this can give the new organisation the tools it needs to do its job and to rebuild the sustainability of the local audit market.

I should like to thank:

- First, all those stakeholders who have engaged with the Review and responded to the Review's Call for Views;
- Second, the excellent team which has supported the Review's work: Ollie Hulme, Joe Pilgrim, Beth Addison and Gareth Caller; and
- Third, all the members of the Review's advisory group: Lynn Pamment, Maggie McGhee, Professor Laurence Ferry, Catherine Frances, Vicky Rock, Richard Hornby and Mark Holmes. This formidable group provided much wise guidance and counsel, as well as lively challenge and debate, for which I am hugely grateful.

Responsibility for the Review's conclusions and recommendations, is however, mine and mine alone.



Sir Tony Redmond

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Executive Summary

- This Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound. It is important to note that this Review encompasses not only principal local authorities but also PCCs, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.

- The Review has received 156 responses to the Calls for Views and carried out more than 100 interviews. Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not to say that the audits are carried out unprofessionally but there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts.

- A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process. Although there is some scope to effect alterations to the individual roles, appropriately fulfilled with the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.

- Consequently, a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.

- The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.

- The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits together with the process for managing vexatious complaints where issues have been raised by those bodies which have experienced such challenges.

- Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council. This demonstrates transparency and accountability from a public perspective which is currently lacking in many authorities.

- The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.

- The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to hold local authorities to account for their performance together with a robust and effective audit reporting regime.

- Aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements.

- Implementation of recommendations contained in this Review would, in part, require regulatory or legislative change but it is important to note that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in this Review.

Recommendations

The recommendations of this Review are as follows:

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
    - procurement of local audit contracts;
    - producing annual reports summarising the state of local audit;
    - management of local audit contracts;
    - monitoring and review of local audit performance;
    - determining the code of local audit practice; and
    - regulating the local audit sector.

2. The current roles and responsibilities relating to local audit discharged by the:
    - Public Sector Audit Appointments (PSAA);
    - Institute of Chartered Accountants in England and Wales (ICAEW);
    - FRC/ARGA; and
    - The Comptroller and Auditor General (C&AG)

    to be transferred to the OLAR.

3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
    - an annual report being submitted to Full Council by the external auditor;
    - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
    - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

20. The standardised statement should be subject to external audit.

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope

to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
    - Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;
    - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
    - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

1. Introduction

1.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. This Review examines the effectiveness of local audit as now practised.

1.2 The purpose of the Review is to test not only the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. In a similar context the brief of the Review extends to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

1.3 The framework for local audit encompasses procurement, contract management and delivery, the code of audit practice and regulation and accountability for performance. All of these aspects of local audit have been examined in depth. Whilst the focus of this Review is on local audit and public accountability there are a number of related factors which have contributed to the shape and nature of the findings. Such matters include: the breadth and complexity of International Financial Reporting Standards (IFRS); the role of the sponsoring department (MHCLG); and the current state of the local audit market. Local authorities include Councils, Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), and National Parks Authorities. NHS bodies are not local authorities and are outside the scope of this Review.

1.4 It is also important to emphasise that the Review includes the functions of Police and Fire Services as well as Parish Councils and Drainage Boards and due regard has been paid to the specific requirements of these bodies, as appropriate.

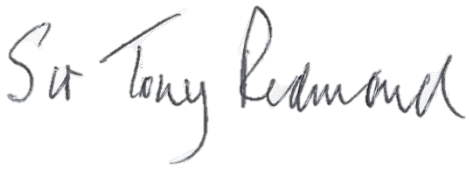
1.5 Substantial evidence has been collated from the 'Call for Views' and individual stakeholder meetings and this has formed the basis of the Report's findings. The co-operation received from all interested parties including local government practitioners, audit firms, professional accounting bodies, academia and the media and the general public has been much appreciated. All parties who have participated in the Review share a desire to ensure local audit is effective and that public accountability is seen to be achieved. The approach to the Review has sought to harness those valuable contributions.

1.6 Attention has been paid to the findings of the Brydon and Kingman Reviews as well as the study carried out by the Competition and Markets Authority (CMA). Each of these reviews offers an insight into the principles and practices of auditors in the corporate sector, which have relevance to the public sector, including local government.

1.7 While testing the quality of outcomes has been a key feature of this approach, attention has been directed towards the governance arrangements in the way in which audit reports are managed and reported. The focus here has been on the level of

public awareness of audit findings. Current practices relating to the annual publication of financial information have also been reviewed with an emphasis on the transparency, access and intelligibility of such reports.

1.8 In examining options for change to the current local audit arrangements, account has also been taken of the potential resource implications of any new initiative or development contained in the recommendations.



Sir Tony Redmond

2. The direction and regulation of local audit

2.1 Introduction

2.1.1 The direction and regulation of local audit must be structured as to enable public accountability to be served. Each stage of the local audit process must adhere to this and remain consistent throughout. Ultimately, the direction and regulation of audit must be coherent, consistent in quality monitoring and fulfil the public accountability principle. The test, therefore, is whether the current arrangements deliver that, or can be altered to achieve that, or whether a new structure for the local audit regulatory framework needs to be put in place.

2.1.2 Public Interest Reports may be seen as relating to the local community's serious concern, but these are rarely used. In any event, council taxpayers are entitled to know the outcome of the annual statutory audit whether it be positive or negative.

2.2 Overview of the Regulatory Framework

2.2.1 The 2014 Act split the responsibilities formerly carried out by the Audit Commission between a range of bodies. **Figure 2.1** summarises the entities that have a significant role or influence on the accounting, audit and governance framework within which local authorities operate.

2.2.2 Currently there are six different entities with a statutory role in overseeing and/or regulating elements of the local authority accounting and audit framework. This framework is further complicated by the fact that different elements apply to different sectors. The elements of the audit framework undertaken by the C&AG, FRC and the ICAEW apply jointly to the local authorities and NHS bodies in England. However, whereas PSAA is the appointing body for 98% of local authority audits, NHS bodies do not have an appointing body and as such appoint their own auditors. By comparison the accounting framework applies to local authorities in England, Scotland, Wales and Northern Ireland, but not to the NHS.

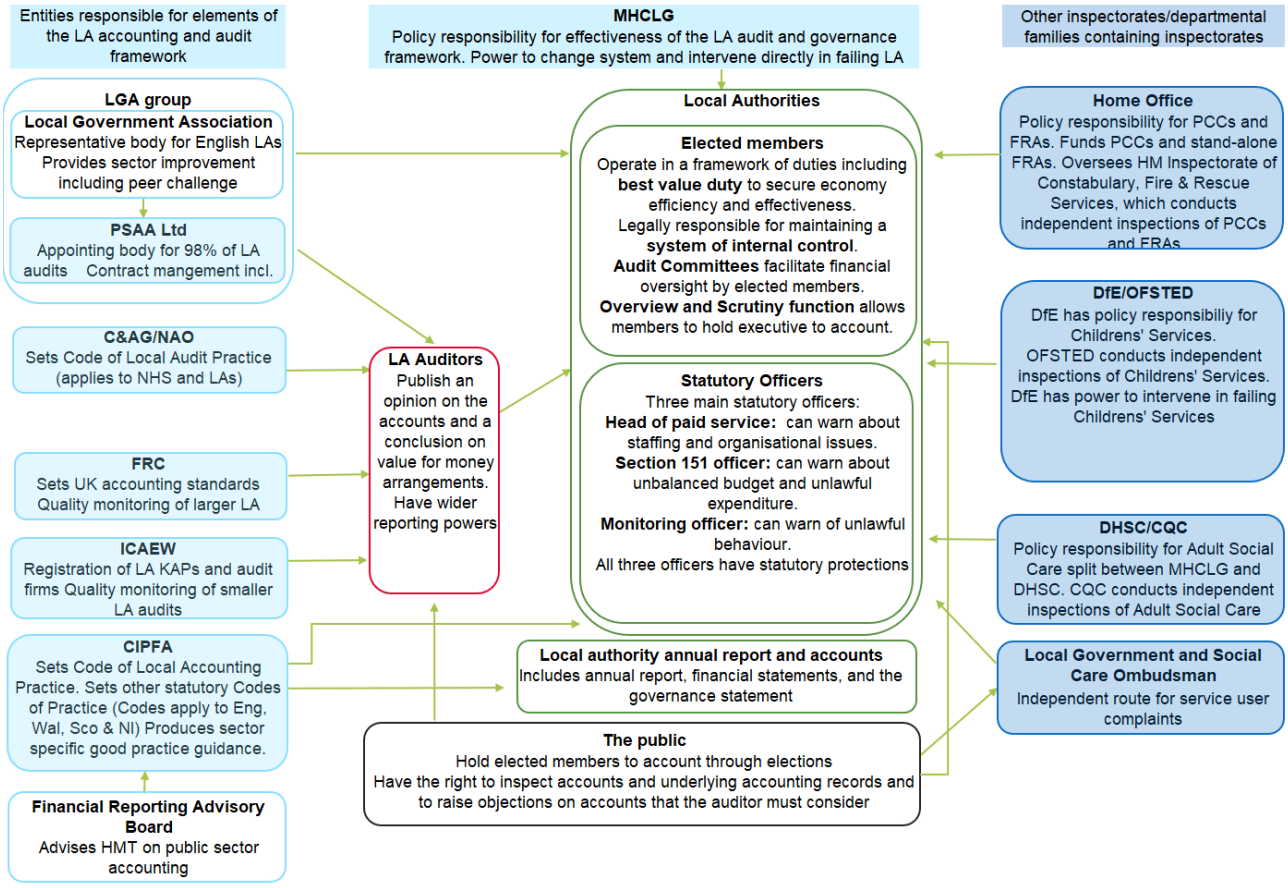
2.2.3 Another challenge is that the local authority sector is not the main focus for some of the regulatory bodies; specifically:

- The C&AG and National Audit Office's (NAO's) responsibilities relate mainly to holding central government departments to account on behalf of Parliament.
- The vast majority of the FRC's and the ICAEW's work relates to the private sector, and in the FRC's case, to regulating the audit and corporate governance arrangements within listed companies known as Public Interest Entities ("PIEs").

2.2.4 Finally, none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner. Although various ad hoc forums have been set up to share information, it is not clear how the membership and remit of these has been agreed. As a result, the lack of co-ordination and the lack of a system leader is widely recognised as a weakness in the framework by most of the stakeholder groups.

Figure 2.1

The Local Authority Governance, Audit and Accounting Framework 2018-19



Notes

1. Adapted from Figure 1 in NAO report *Local Authority Governance* (Jan 2019)
2. There are other statutory officers in local authorities, but between them, the three listed have overall responsibility for effective goverance
3. Arrows show the influences on local authority governance arrangements
4. In a Police and Crime Commissioner or Fire and Rescue Authority, the Commissioner is the sole elected member; in a Mayoral Combined Authority, the mayor is the sole
5. Audit Committees are mandatory in PCCs, stand-alone FRAs and mayoral combined authorities. They are not mandatory for other LAs.
6. ICAS also has the power to act as a registering body for KAPs and audit firms. However, following mergers, no firms active in England are currently registered with ICAS.
7. MHCLG part funds the LGA's sector improvement work

2.3 Functions of the bodies responsible for the framework

PSAA Ltd

2.3.1 One of the original objectives behind the 2014 Act was to widen participation in the local audit market by allowing local authorities to appoint their own auditors. Once the Act had passed, it became clear that the auditor appointment provisions in the 2014 Act were onerous and there was little appetite amongst local authorities to appoint their own auditors. As a result, MHCLG ran a tender exercise to identify an entity which would act as an appointing person for local authority audits.

2.3.2 PSAA, a new company set up by the Local Government Association (LGA), was the only bidder and accordingly was designated as an appointing person under legislation. Under the transitional arrangements, PSAA was given the responsibility of managing the framework contracts let by the Audit Commission in 2012 and 2014, and during the period to 2017-18 producing a report summarising the results of local authority and NHS audits.

2.3.3 Category 1 Authorities[1] were given the choice of opting in or out of the PSAA arrangements. Most (currently 98%) chose to opt in.

2.3.4 In 2017 PSAA let the new local audit framework contracts, active from the 2018-19 financial year. PSAA's current responsibilities[2] are:

- To perform the functions of an appointing person for local authority audits;
- To take steps to ensure that public money is properly accounted for and protected;
- To oversee the delivery of consistent high quality and effective audit services; and
- To ensure effective management of audit contracts.

More detail on the contracting process and on audit quality is contained in **Chapters 3 and 4** respectively.

The C&AG and the NAO

2.3.5 The C&AG is responsible for laying the Code of Local Audit Practice in Parliament. The C&AG is supported in this work by a small Local Audit Code and Guidance (LACG) team, which is part of the NAO. The LACG team is responsible for the preparation, maintenance and publication of the C&AG's Code of Audit Practice and supporting guidance to auditors. LACG undertakes the full range of activities associated with these responsibilities including:

- providing a point of contact to address significant issues raised by auditors and other stakeholders that may require the update of the Code of Audit Practice or issuing guidance to auditors; and
- facilitating timely engagement with, and advice to, auditors and other stakeholders to facilitate consistency of approach on significant issues – for example, through convening and providing secretariat support to a Local Auditors Advisory Group.

2.3.6 The 2014 Act provides the C&AG with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. The NAO maintains a series of Auditor Guidance Notes (AGNs) to support auditors in their work and facilitate consistency of approach between auditors of the same types of entity. The 2015 Code is supplemented by seven AGNs. These apply equally across local government and the NHS. The AGN on value for money arrangements is supplemented by sector specific supporting information.

2.3.7 The 2014 Act gives the C&AG the responsibility for undertaking value for money investigations on local government. However, the C&AG does not have the power to make recommendations directly to local authorities. This means that when a value for money study finds that one or more local authorities have breached either the letter or the spirit of the statutory framework, the accompanying recommendations must be addressed to MHCLG or Treasury, if they relate to the Public Works Loan Board, as the responsible central government departments.

[1] "Category 1 authority" means a relevant authority that either— (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

2.3.8 The main roles of the C&AG and the NAO are to support Parliament in holding government to account, through auditing the accounts of government departments and arms-length bodies and undertaking value for money investigations. When the NAO undertook the 2019 study on Local Authority Governance, which included work on local authority audit, the team did not include the Audit Code within the scope of the review. This was to avoid the risk of self-review. As a result, the findings of that report could not take account of an element of the governance framework.

The Financial Reporting Council

2.3.9 The FRC is responsible for issuing standards and guidance to auditors for use in the UK. The suite of standards is known as *International Standards on Auditing (UK)*, and apply equally to audits of local authorities and entities in other sectors.

2.3.10 During the transitional arrangements operating from 2015-16 to 2017-18, the FRC had no formal responsibility for assessing the quality of local authority audit. PSAA took the decision to contract the FRC to undertake six quality assurance reviews of local authority audits, with coverage of at least one from each firm. In practice, the FRC conducted quality assurance reviews of seven audits in both 2016-17 and in 2017-18. This is because the FRC's methodology requires them to re-review all audits that received an unsatisfactory quality assurance review score in the prior year. The results of these quality reviews are discussed in **Chapter 4**.

2.3.11 From 2018-19, the FRC has taken on statutory responsibility for quality assurance reviews of the 230 larger local authority audits. It treats the NHS and local government bodies as a single population and, to maintain equivalence with their coverage of the audit of PIEs, look to cover at least 5% of that population in each year. For 2018-19, the sample included 3 NHS bodies and 12 local authorities. Because some of the audits originally selected for quality review were not complete when the FRCs Audit Quality Review team conducted its fieldwork, these had to be replaced with other audits. The results of the 2018-19 quality assurance reviews are expected to be available in the Autumn of 2020.

2.3.12 The methodology adopted for quality assuring audits in local authority sector is broadly equivalent to that of the Public Interest Entities sector. The review team focuses on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The document review is supplemented by meetings with the audit team and the Chair of the Audit Committee.

2.3.13 Formal client communications are included within the scope of the quality review. However, ongoing liaison between auditors and local authorities would be assessed only if included on the audit file.

2.3.14 Unlike for PIE audits, the FRC does not have the power to fine audit firms if the quality of their local authority audits proves to be deficient. However, all of the firms active in the market indicated that they are very conscious of the reputational damage of a poor rating from the FRC for one of their local authority audits.

2.3.15 FRC is of the view that the perception that it focuses mainly on asset valuations understates the scope of their quality reviews. It also believes that if a focus on asset

and pension valuations is inappropriate, this is the responsibility of the partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) known as CIPFA/LASAAC to resolve, through modifications to the Accounting Code.

2.3.16 The FRC is in the process of being reconstituted as the Audit Reporting and Governance Authority (ARGA) in line with the recommendations made in the Kingman Review. Sir Donald Brydon also recently published a report that made a number of recommendations to develop corporate auditing as a profession. As the FRC and the Department for Business, Energy & Industrial Strategy (BEIS) consider these recommendations, there is a risk of divergence between the focus and methodologies used to quality assure external audit engagements. Managing this interaction will require ongoing engagement.

ICAEW

2.3.17 The ICAEW has two statutory functions. Since 2015 it has been responsible for maintaining the register of audit firms and Key Audit Partners (KAP) authorised to sign off local authority audits; and since 2018-19 it has been responsible for quality assurance reviews of the 313 smaller local authority audits. The framework for approving firms and partners is tightly controlled by legislation.

2.3.18 Like the FRC, the ICAEW treats local authorities and NHS bodies as a single population for quality assurance review purposes. The 2018-19 quality assurance process is ongoing. ICAEW has selected 15 audits for quality assurance review, split roughly two thirds local government and one third health. The results of this quality assurance review process are not yet available.

2.3.19 Similarly to the FRC, the ICAEW quality assurance reviews focus on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The methodology used to assess the audits of English local authorities is the same as is used to assess audits undertaken by the Auditor General for Wales. This methodology does not require review teams to meet with Audit Committee chairs. As with the FRC, the ICAEW does not have any powers to fine or otherwise sanction auditors whose audits do not meet appropriate quality standards.

2.3.20 ICAEW and the FRC liaise to make sure that all audits fall within one or other of their sample populations and use, broadly, the same quality ratings. Both use well established methodologies to arrive at those ratings.

CIPFA

2.3.21 CIPFA has a dual role. It has been given the statutory responsibility for producing many of the finance related codes of practice that local authorities are required to observe. At the same time, it is a professional institute that represents the majority of accountants working in the local government sector, including most CFOs.

2.3.22 The Accounting Code is prepared by a small secretariat employed by CIPFA who report to the CIPFA/LASAAC Accounting Code Board ("CIPFA/LASAAC"). CIPFA/LASAAC is responsible for preparing, maintaining,

developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom. Its membership primarily comprises accounts preparers representing the different types of authorities in England, Scotland, Wales and Northern Ireland, the Supreme Audit Institutions, and a representative of one of the external audit firms active in the sector in England. The FRC along with representatives of MHCLG and the Scottish, Welsh and Northern Irish governments have observer status on CIPFA/LASAAC.

2.3.23 In England CIPFA/LASAAC is supported by a CIPFA facilitated Local Authority Accounting Panel, which focuses on local government accounting and financial reporting issues and produces guidance for practitioners.

2.3.24 The Accounting Code could be characterised as long and complex. Part of the reason for this is the challenge of writing a Code that covers four countries, each of which has its individual statutory framework with a different set of statutory adjustments and disclosures. In addition to this, CIPFA has taken the decision to draft a highly prescriptive Code that provides detailed guidance on the correct accounting for each class of transactions. An alternative approach would be to draft a principles-based Code, which requires local authorities to comply with generally accepted accounting practice ("GAAP") and only provides detailed guidance where GAAP is adapted or interpreted, specifically for the local authority context. **Chapter 7** covers the accounting framework in more detail.

Assessment of whether an existing body could act as the system leader

2.3.25 The detailed analysis of the bodies responsible for the framework supports the conclusion reached in Sir John Kingman's Independent Review of the Financial Reporting Council:

"*The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks*"[2]

2.3.26 The Kingman Review recommended that the fragmented structure be resolved by designating a single body as the system leader. When asked whether an existing body or a new body would be best placed to take on the role of a system leader, 82% of respondents expressed a preference for a single regulatory body. Many stakeholders who were interviewed also agreed. The other suggestions made were either that the C&AG or the FRC should take the role of system leader.

2.3.27 The C&AG clearly has the relevant experience and expertise to take on such a role. However, taking on responsibility for an element of a framework that is the policy responsibility of a government department could significantly increase the risk of a conflict of interest with the C&AG's main responsibility, which, as already stated, is to hold government departments to account on behalf of Parliament.

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

2.3.28 As the regulator for the audit profession in the UK, the FRC will continue to have an important role in setting standards for all external auditors, including those working in local public audit. However, the FRC's main focus is corporate sector external audit, and to be fully effective the system leader for local public audit will need to demonstrate detailed expertise and a clear focus on that sector.

2.4 Interactions with other inspectorates

2.4.1 There are a number of other inspectorates who cover the local authority sector. Ofsted and the CQC assess the effectiveness of children's services and adult social care respectively in authorities with those statutory responsibilities; HM Inspectorate of the Constabulary and Fire and Rescue Services (HMICFRS) undertakes independent inspections of PCCs and FRAs covering both service delivery and financial planning; the Local Government and Social Care Ombudsman (LGSCO) looks at individual complaints against councils, all adult social care providers in both public and private sector, FRAs, and some other organisations providing local public services; and the Independent Office for Police Conduct performs the same function for PCCs.

2.4.2 Evidence suggests that where a local authority receives an "Inadequate" rating for its children's services, the auditor as a general rule qualifies the value for money conclusion. For example; when PSAA published its summary report on the results of 2017-18 audit work, it listed 32 qualified Value for Money (VfM) opinions; half of these were due to an "inadequate" Ofsted rating[3]. The auditor's value for money conclusion remains qualified until a future Ofsted inspection finds that children's services are no longer "Inadequate". Local authorities questioned the benefits of including Ofsted judgements in the audit report. The circumstances supporting an "inadequate" Ofsted rating are fully explained in a detailed and publicly available report. In the light of this there is a question as to how qualifying the VfM opinion solely for this reason fully reflects the governance arrangements within the authority that could be brought to the attention of elected representatives and other key stakeholders. When asked whether a value for money opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate, 97% of respondents thought that it should not. There is no evidence of reports by other inspectorates leading to modifications to the auditor's opinion.

2.4.3 We have been told by external audit firms and local authorities that external auditors utilise inspectorate reports on a case by case basis. There is little evidence of any additional dialogue between external audit and other inspectorates to discuss inspectorate reports or take into consideration any improvements that a local authority may have made since an inspectorate rating had been issued. This is a change from practice since prior to 2015, where external auditors and inspectorates liaised much more frequently. Whilst external audit firms were broadly in agreement that there should be engagement with inspectorates, many felt that the current arrangements were sufficient.

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

2.4.4 Whilst recognising that each inspectorate focuses on a different area, there is a question as to whether more liaison may add value. Many examples of service delivery and financial failures are underpinned by weaknesses in governance and senior leadership. Given this, it may be valuable for the auditor or an inspector that has concerns, to find out if those concerns are reflected in other areas of a local authority's business or indicative of wider financial resilience issues.

2.5 The role of MHCLG

2.5.1 The Ministry of Housing, Communities and Local Government (MCHLG) has a statutory role in regulating and monitoring the financing and service delivery of local government. The Accounting Officer within the Department has responsibility for overall expenditure control within local authorities given the funding regime under which the sector operates. In addition, he has policy responsibility for the effective operation of the local authority audit and accounting framework.

2.5.2 Support to the Accounting Officer in fulfilling these responsibilities is split between two directorates:

- Local Government Finance; and
- Local Government and Communities (formerly Local Government Policy)

Local Government Finance

2.5.3 This Directorate covers payments to local authorities through the grant system, has responsibility for business rates and council tax policy, oversees borrowing, capital and fiscal arrangements and is responsible for assessing the financial sustainability of local government. When a local authority experiences financial difficulty, it is the Local Government Finance Directorate that usually leads the government response. It also provides the MHCLG representation on CIPFA's accounting panels.

Local Government and Communities

2.5.4 This Directorate has overall responsibility for MHCLG's local government assurance framework as set out in the Accounting Officer's system statement. Regular advice is given to the Accounting Officer on whether the framework for which he is responsible is operating effectively.

2.5.5 The directorate includes a team that maintains a view of local authorities where concerns exist about financial resilience, service delivery or officer/member conduct issues. In appropriate circumstances this may lead to statutory interventions into local authorities or, alternatively, statutory support. Qualified audit opinions are considered a part of this view.

2.5.6 Another team has responsibility for the local audit policy framework, the 2014 Act and the Accounts and Regulations 2015, managing relationships with PSAA, SAAA, NAO, ICAEW, Institute of Chartered Accountants of Scotland (ICAS) and FRC insofar as their activities relate to the local audit framework and logging Public Interest Reports.

2.5.7 In 2014 the team responsible for local audit set up a Local Audit Delivery Board to support implementation of the 2014 Act. In 2018, it became the Local Audit Monitoring

Board, with revised terms of reference and expanded membership. The Board comprises representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the framework. This Board is a consultative body, that holds meetings in private and has no formal powers or remit.

2.5.8 In viewing these roles from a local authority perspective, it is clear that MHCLG provides a national oversight of the financing of local government, capital and revenue spending, accounting arrangements and financial resilience. This work is substantial and seeks to offer assurance regarding the financial stability of individual local authorities and it includes, within its brief, responsibility for testing adherence to legislation and regulations governing local audit.

2.5.9 The responsibility for regulating local audit sits elsewhere yet MHCLG has a key role in offering assurance about the financial health of local authorities. The intelligence network and information flow relating to accounting and audit reporting on financial sustainability should reach MHCLG in a structured, timely and coordinated fashion. Given the strategic roles that the Department and The Accounting Officer carry it is crucial that systems and procedures are in place to enable this to happen. Clarity, coherence and consistency in fulfilling the Department's role are key to helping to ensure effective local audit.

3. Procurement of local audit

3.1 Statutory framework and eligibility criteria

3.1.1 In order to bid for a local authority audit, both audit firms and every individual responsible for signing off an audit opinion, typically but not always a KAP, needs to be pre-approved either by ICAEW or ICAS. Eligibility criteria are set out in Schedule 5 to the 2014 Act. These criteria stipulate that it is impossible to bid for local authority audits unless both the firm and each nominated KAP has recent experience of undertaking local authority audits. It is difficult for new entrants to enter the local authority market as a consequence of these criteria as audit firms not currently in the market are unable to gain the relative knowledge and expertise that would be required to become a KAP.

3.1.2 Despite the high barriers to entry, since 2016 there has been a 7% increase in the number of KAPs eligible to sign off local authority Audits. Firms active in the market continue to register new KAPs. 39% of KAPs currently registered were not KAPs in 2016, with the firms with a smaller market share being responsible for much of this increase. However, the headline KAP figure is slightly misleading. The number of KAPs has declined by 13% once those who are working for firms who do not currently hold contracts with PSAA are excluded.

Figure 3.1

Number of Key Audit Partners registered with ICAEW

Firm	2016	2020
BDO	5	7
EY	13	16
GT	32	26
Mazars	4	10
KPMG	22	23
Deloitte	6	8
Total KAPs (Firms holding contracts with PSAA)	76*	67*
Cardens	0	1
Moore Stephens	2	0
PWC	12	9
Scott-Moncrieff	0	3
Total KAPs	96	103

** Deloitte did not hold any PSAA contracts in 2016. KMPG does not currently hold any PSAA contracts.*

3.1.3 There is a risk that the Competition and Markets Authority: Statutory Audit Services Market Study[4] recommendation to implement an operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality will further reduce the number of KAPs qualified to sign off local authority audits. KAPs may be responsible for a mixture of external audit, internal audit and consultancy engagements. If required to choose between specialisms, there is, of course, no guarantee that they will opt for external audit.

[4] See Annex 5 for a more detailed analysis of the potential impacts of the CMA, Kingman and Brydon recommendations for local audit.

3.2 The 2017 procurement process

3.2.1 As detailed in **Chapter 2**, PSAA took over the administration of the bulk audit contracts let by the Audit Commission in 2014. These ran from 2015-16 to 2017-18. They comprised five lots let on a regional basis. In 2017 PSAA ran a new procurement to contract for local authority audits for the period 2018-19 to 2022-23.

3.2.2 PSAA chose to split lots by market share rather than on a regional basis. The reason for this was a concern that some regions could prove less popular with bidders than others. They also checked for potential conflicts of interest. Five lots comprising between 40% and 5% of the total market were let, each for a period of five years. No firm could win more than one lot. A sixth lot with no guaranteed work was let, with the aim of providing some resilience in the market.

3.2.3 Local authorities were notified of the lot to which they had been allocated and were given the opportunity to request transfer to a different lot; for example, if they were in a shared service arrangement with an authority in a different lot. Seven local authorities asked for their audit to be transferred to a different lot. Five of these requests were accepted.

3.2.4 Of the nine firms registered to undertake local authority audits seven bid for one or more lots. One firm decided not to bid and a second was excluded from the bidding process by PSAA because it felt the firm was too small to have a realistic chance of submitting a competitive bid.

3.2.5 Assessment of audit firms was split 50:50 between price and quality, compared to the final Audit Commission procurement which was done on a price quality ratio of 60:40. The team assessing quality scores was not given sight of the price each firm had bid. In addition, PSAA asked an ex-District Auditor working for the LGA to quality assure the assessors' quality scores. The assessment of quality was based solely on the tender documents submitted. Past performance was not considered.

3.2.6 One of the firms bid at a much higher price point than the other firms. This generated such a low "price" score that it was effectively impossible for its quality score to make up sufficient difference to win a lot.

3.2.7 Although the headline quality price ratio was 50:50, as highlighted in **Figure 3.2**, many of the questions included in the quality score do not directly relate to factors impacting audit quality.

3.2.8 Four firms bid for the largest two lots (including the firm who priced themselves out of the market); and six for the remaining four lots. Each successful firm was eliminated from consideration for each smaller lot, leaving only two firms from which to choose when awarding Lot 5.

3.2.9 After excluding the firm that priced itself out of the market, the firms awarded the five contracts were those with the highest quality scores. The firm with the highest quality score won the largest lot; the second highest quality score the second highest lot; and

there was a marginal difference between the quality scores for the other successful firms.

Figure 3.2: Audit Quality Questions – PSAA tender document

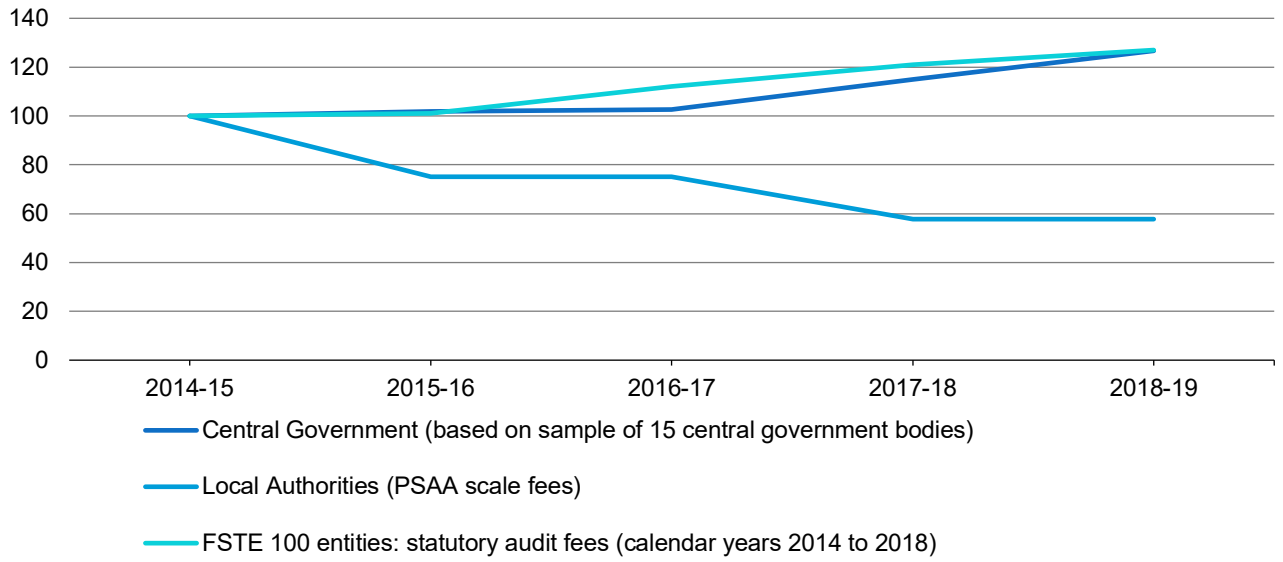
Question number	Question	Weighting	Maximum weighted score
1.1 and 1.2	Confirmation of information in SQ Response; and other declarations; Guarantee (if applicable) and completed, unqualified Form of Tender	N/A	N/A
2.1	Identifying and addressing risks and issues and engaging with different stakeholders	0.5	5
2.2	Continuing professional development	0.2	2
3.1	Providing a clearly articulated audit plan to address the risks identified, and arrangements for carrying out the planned work effectively	1	10
3.2	Information assurance	N/A	N/A
4.1	Quality assurance arrangements to ensure that local audits are undertaken to a consistently high standard	0.6	6
5.1	Schedule of staff	N/A	N/A
5.2	Details of resourcing	0.5	5
5.3	Details and role of Contact Partner	0.3	3
6.1	Selection of a team to work on an individual audit	0.5	5
6.2	Arrangements for discharging statutory reporting responsibilities under the Local Audit and Accountability Act 2014, managing authority and public expectations	0.4	4
7.1	Arrangements to ensure a smooth transition for audits of local government bodies transferring between audit firms	0.5	5
8.1	Opportunities to be commenced and completed	0.3	3
8.2	Other economic, social and environmental initiatives to be undertaken	0.2	2
Overall quality score			50
Price	Ranking of Bid Rate %	1	50%
Overall score (quality and price combined)			

Questions 2.1, 3.1 and 4.1 are direct indicators of quality.

3.2.10 Lot six was designed to provide spare capacity in the market. However, this has not worked as intended, in part because mergers mean that the firm that won Lot 6 no longer exists.

3.2.11 As demonstrated by **Figure 3.3**, audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen. As well as the overall external audit fee paid by the sector declining in cash terms it has also dropped as a percentage of net current expenditure of local authorities, from 0.05% in 2014-15 to 0.04% in 2018-19. Within the sector there are further variations with PCCs and Local Authority Pension Funds typically paying much lower audit fees as a percentage of net expenditure than other types of local authorities.

Figure 3.3
Sector by sector comparison of change in audit fees over time



Notes

1 2014/15 base 100

3.3 Translating bids into audit fees paid by LAs

3.3.1 PSAA told the Review that the scale fee paid by individual LAs under the current contracts has been calculated by taking the total annual fee paid to external auditors under the contract and adding PSAA's margin; comparing the total amount paid to the total amount paid under the 2014 contracting process; and applying the percentage reduction in total amount paid equally across all local authority audits.

3.3.2 The Audit Commission adopted the same approach for allocating fees to individual local authorities when it let the 2012 and 2014 contracts. This means that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.

3.3.3 Since 2010, there have been changes to the major powers and duties of local authorities and to the business environment within which they operate. Individual local authorities will have been impacted by these changes to differing extents. As a result, there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

3.3.4 88% of local authorities who responded to the Call for Views think that the current procurement process does not drive the right balance between cost reduction, quality of work, volume of external auditors and mix of staff undertaking the work.

3.3.5 Audit fees for those local authorities who have opted out of the PSAA arrangements have changed in a way similar to fees for those who have opted in.

3.4 Fee variations and contract management

3.4.1 When an auditor requests a fee variation, this must be agreed by PSAA[5]. In practice, PSAA may challenge fee variations by asking for more information from the firm but expects the auditor and the local authority to come to an agreement as to the additional fee to be paid. PSAA records and monitors this activity. It may also facilitate a conversation between the auditor and local authority in the case of disagreement.

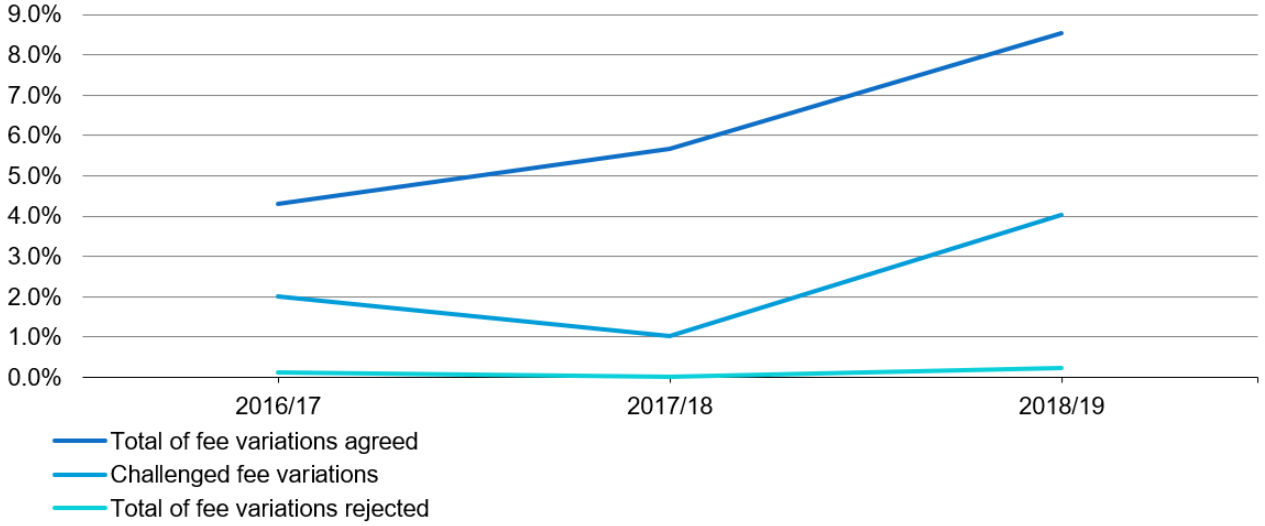
3.4.2 As demonstrated by **Figure 3.4** the number and size of fee variation requests have increased over time. Fee variation requests are often received some months after audits are completed, which means it is difficult to assess the true level of fees paid by the sector. As delayed audits are more likely to generate issues that require more work and thereby attract fee variations, and some firms are not always prompt in submitting fee variations, there are likely to be some requests outstanding relating to 2017-18 and 2018-19 audits.

3.4.3 Audit firms consider the fee variation process to be unsatisfactory. They have raised concerns that the scope to claim fee variations is not sufficient to meet their costs. Increasing the scale fee, to reflect changes in regulatory requirements is for practical purposes not possible under the current arrangements.

3.4.4 The majority of local authorities' representatives who offered a view on fee variations also considered them to be unsatisfactory. A concern, which has been raised by a not insignificant number of authorities, is the fact that fee variation requests are not always supported by any evidence of additional work done. Some local authorities passed examples to the Review of auditors, representing more than one audit firm, refusing to provide evidence to support a requested fee variation.

Figure 3.4

Fee variations as a percentage of total scale fees



Notes

1 Transitional arrangements in 2016-17 & 2017-18, PSAA contract in 2018-19.

2 Some fee variation requests for 2018-19 audits still to be received and agreed.

[5] https://www.psaa.co.uk/wp-content/uploads/2019/12/PSAA-fee-variation-process.pdf

3.4.5 Some local authorities questioned why they have been asked to join a call with a significant number of a firm's technical experts, most of whom do not contribute to the discussion, when they need to resolve technical accounting issues. They have questioned whether the costs of these calls are factored into later fee variation requests.

3.4.6 Fee variations can be submitted at any time which increases uncertainty for local authorities. In addition, some local authorities have claimed that they were led to believe by their auditors that they would refuse to sign off their accounts until they agreed a fee variation.

3.4.7 Finally, some authorities have also claimed that they are being asked to fund the costs of additional audit fieldwork because auditors have not resourced the planned audit visit properly and as a result, need to conduct additional audit testing. It has not been possible to assess whether this is happening or how widespread is the practice.

3.4.8 For the 2019-20 audit cycle, PSAA has taken steps to manage fee variations more proactively. Rather than wait for fee variations to be submitted, PSAA has asked all of the firms active in the market to estimate the additional fee required to ensure that their audit work and audit files meet current quality standards. Four of the firms have suggested that an increase of between 15% to 25% on the scale fee is required with the fifth firm requesting an increase of 100% on the scale fee. PSAA informed local authorities that it expects audit firms to provide fee variation information at the earliest possible opportunity, and that PSAA has emphasised this to the firms in its recent auditor communications. PSAA is currently in the process of reviewing how each firm's standard audit testing programmes have changed over the past three audit cycles to identify whether the increases requested are justified. PSAA will use this work to enable it to provide reassurance to audited bodies that extra work has been validated.

3.4.9 Some local authorities have suggested that PSAA has an incentive to approve fee variations as they are funded through making a margin on audit fees. This is not correct. Because PSAA calculates its margin on a total system cost, it is not possible for local authorities to calculate how much of each audit fee or fee variation is due to PSAA. However, as a not for profit company, PSAA has no incentive to claim more funding than it is entitled to. The company's Articles of Association requires PSAA to return surpluses to the sector. In late 2019, under the transitional arrangement, a distribution of the surplus funds of £3,500,000 (9.3% of the 17-18 scale fee £37.6m) was approved by the Board to be returned to the sector, apportioned between local authorities on a scale fee basis. This might be interpreted as an effective transfer of funds from LAs charged fee variations to those who have not been charged variations.

3.4.10 Some LAs have stated through interviews, that PSAA's role is opaque and that they feel that they have no route to challenge audit fees that they feel are unfair or to raise concerns relating to poor quality or delayed audits. The contract provides no mechanism for individual LAs to complain about the service they receive from their auditors.

3.4.11 PSAA states that its role as defined under statute does not include active contract management and it does not currently have the expertise to do so. However, in the *Local Audit (Appointing Person) Regulations 2015* the additional functions of appointing person include requirements to:

"monitor compliance by a local auditor against the contractual obligations in an audit contract… [and] resolve disputes or complaints from— (aa)local auditors, opted in authorities and local government electors relating to audit contracts and the carrying out of audit work by auditors it has appointed."[6]

3.4.12 During the transitional period implementing the new arrangements (2015-16 to 2017-18), there was a Memorandum of Understanding (MoU) between MHCLG and PSAA, which required PSAA to fulfil its statutory functions. When the MoU expired MHCLG did not renew it.

[6] https://www.legislation.gov.uk/ukdsi/2015/9780111126134

4. Audit performance

4.1 Introduction to local authority audit

4.1.1 Auditors of local authorities provide two audit opinions. These are:

- A financial audit opinion; and
- An opinion on the effectiveness of the systems in place to meet the best value duty (known as the 'value for money' opinion).

Scope of financial audit opinion

4.1.2 The purpose of a financial audit is to form an opinion on a set of financial statements. Financial audits are required to be conducted in accordance with International Standards on Auditing – UK (ISAs). The auditor is required to certify whether the financial statements are free from *material* misstatement and are properly prepared in accordance with the relevant accounting and legislative framework. For local authorities, the relevant accounting framework is the Code of Accounting Practice prepared by CIPFA.

4.1.3 In a local authority context, the audit opinion covers the financial statements, the Collection Fund Account and the Housing Revenue Account. It does not cover the narrative statement or annual governance statement. These are covered by what is known as a 'negative assurance' or 'consistent with' opinion. The auditor is required to read these statements to confirm that there is nothing inconsistent or misleading based on what is reported in the accounts and their understanding of the business. If these statements contain information which is misleading or inconsistent, auditors should insist that the relevant sections are appropriately reworded or removed. If not, no further work is required.

4.1.4 Materiality is a key concept in financial audits. Errors or misstatements are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of the financial statements. Auditors are not required to take account of individual users, but do need to assess them as a group.

4.1.5 Auditors do not test every transaction supporting a set of financial statements. Instead they split the financial statements into groups of transactions with similar characteristics and assess the risks of material misstatement for each. The amount and types of audit testing for each of these areas is informed by this risk assessment.

4.1.6 It therefore follows that the key factors in delivering a quality audit are understanding the needs of the users of the accounts; and undertaking an effective risk assessment informed by a proper awareness of the business.

Scope of value for money opinion

4.1.7 The framework for the value for money opinion is set out in the NAO's Statutory Code of Audit Practice, published in April 2015.[7] ISAs do not apply to VfM audits.

[7] https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

4.1.8 The 2015 Audit Code requires auditors to:

"undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period."

4.1.9 The Audit Code goes on to say:

"Ultimately, it is a matter for the auditor's judgement on the extent of work necessary to support their conclusion on value-for-money arrangements".

4.1.10 The Audit Code requires documentation of the overall conclusion, consideration of risk and of the planned response and work done to address significant risks. If there are no significant risks, the Code does not explicitly require documentation of work done.

Changes introduced by the 2020 Code of Audit Practice

4.1.11 In 2020, the C&AG published a new Code of Local Audit Practice. This is effective from the 2020-21 financial year. The main changes made are in respect of the value for money opinion and supporting work and have been broadly welcomed by auditors and those local authorities who have so far expressed a view.

4.1.12 The binary audit opinion on whether appropriate arrangements are in place has been replaced by a commentary on:

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

In addition, the updated Code will explicitly require auditors to document clearly the work that they have done to support their findings.

4.1.13 The consultation on the supplementary statutory guidance issued by the NAO to support the new Code closed on 2 September 2020. Once this guidance is finalised auditors will need to consider the factors including the following:

- whether a revised risk assessment is required;
- how to design an approach that moves away from obtaining evidence to support a binary audit opinion, to one that generates information to support a commentary on the arrangements in place.
- whether additional or different types of audit testing will be required, and how to structure and produce the new narrative reports.

Other statutory duties and powers

4.1.14 In addition, auditors of local authorities have other statutory powers and duties. These are:

- The power to issue a Public Interest Report at any time;
- The power to issue statutory recommendations to management, copied to the Secretary of State;
- The power to issue an advisory notice setting out potential illegal expenditure;
- The power to apply to the Courts to have unlawful expenditure disallowed;
- The duty to consider qualifying whistleblowing disclosures; and
- The duty to respond to objections raised by electors or other relevant persons.

The Audit Code includes guidance on the scenarios that might give rise to use of these powers and duties. Use of the powers along with the work required to support reports, recommendations and responses to objections is a matter of judgement.

4.2 Defining audit quality

4.2.1 Audit quality is a key determinant of audit performance and this must be seen, not only as a measure against agreed standards and principles, but also whether the output of an audit is seen to meet the legitimate expectations of council taxpayers and other users of accounts.

4.2.2 Financial audit is fundamental to these requirements to give assurance to the reader that the accounts are properly prepared and fairly reflect the council's financial position and use of resources.

4.2.3 Value for money audit should be designed to provide the reader with assurance that the systems in place for use of resources in an effective and efficient way are adequate and appropriate, and that the local authority plans will deliver financial resilience in the immediate and medium term.

4.2.4 The effectiveness of audit also depends on the usefulness, impact and timeliness of auditor reporting. Consideration of Public Interest Reports and Statutory Recommendations is relevant here. Finally, the effectiveness of audit also depends on the Authority's response to audit recommendations. This is a wider definition than that currently used by regulators. Ultimately, regulators consider a local authority financial audit to be of acceptable quality if the audit opinion is supported by sufficient and appropriate evidence and if the work complies with auditing standards, relevant legislation and the Code of Audit Practice. As VfM audit is not covered by auditing standards, the regulators focus principally on whether the audit complies with the Code of Audit Practice.

4.2.5 Nevertheless, the effectiveness and usefulness of local audit has to be measured alongside the assessment of quality. The Review has considered the extent to which the auditors of local authorities:

- Meet the contract specification;
- Demonstrate sufficient understanding of the local authority environment through identification and testing of key financial audit and value for money risks;

- Deliver audits in a cost-effective way;
- Make balanced and considered recommendations; and
- Issue reports and make recommendations in timely fashion.

4.3 Assessing Audit Quality

Meeting the Contract Specification

4.3.1 The contract between PSAA and audit firms largely follows standard terms and conditions. It requires providers of audit services to deliver audits in accordance with statutory obligations and appropriate professional standards. These are discussed below.

4.3.2 The contract is supplemented with a Statement of Responsibilities published, on the PSAA website, which is intended to set out the engagement between PSAA and the appointed auditors. The contract requires audit firms to familiarise themselves with this statement. In accompanying text on their website, PSAA makes clear that the responsibilities of auditors are derived from statute, principally, the 2014 Act and from the NAO Code of Audit Practice and nothing in the Statement is meant to vary those responsibilities.

Demonstrating an understanding of the local authority environment

4.3.3 Feedback received from interviews with local authorities is that KAPs tend to be knowledgeable, skilled and experienced. However, the amount of time devoted to the audit has become more limited in recent years. Anecdotal evidence on the accessibility of KAPs varies. Local authorities largely stated that the senior partners were brought in to resolve significant issues, so were not often visible during the course of the audit. This matched many audit firms' comments that senior partners were brought in for the specific and more complex issues. Most local authorities commented that this was reasonable, and as expected, but some felt that it was difficult to secure input from their KAP on specific issues. Some local authorities commented that during 2018-19 audits, the visibility of both the audit team and KAP had declined somewhat compared to prior years.

4.3.4 As demonstrated by the responses in **Figure 4.1,** despite valuing KAPs, many local authorities had a negative opinion of the overall knowledge and expertise of their audit teams. The two areas of particular concern were:

- the knowledge and continuity of working level audit staff; and
- whether audit work always covered the most important areas of the accounts from a financial resilience and service user perspective.

4.3.5 There is a question as to whether external audit could make more use of the knowledge and expertise of internal audit in developing sufficient understanding of the local authority. It is usual for the external audit team to meet the Head of Internal Audit as part of the audit planning process, but it is unclear if liaison extends much beyond that. Internal auditors are likely to be much closer to the business than external audit and, in many authorities, a proportion of their work focuses on governance and service delivery matters. This could make internal audit a rich source of knowledge, should the external audit team wish to use it.

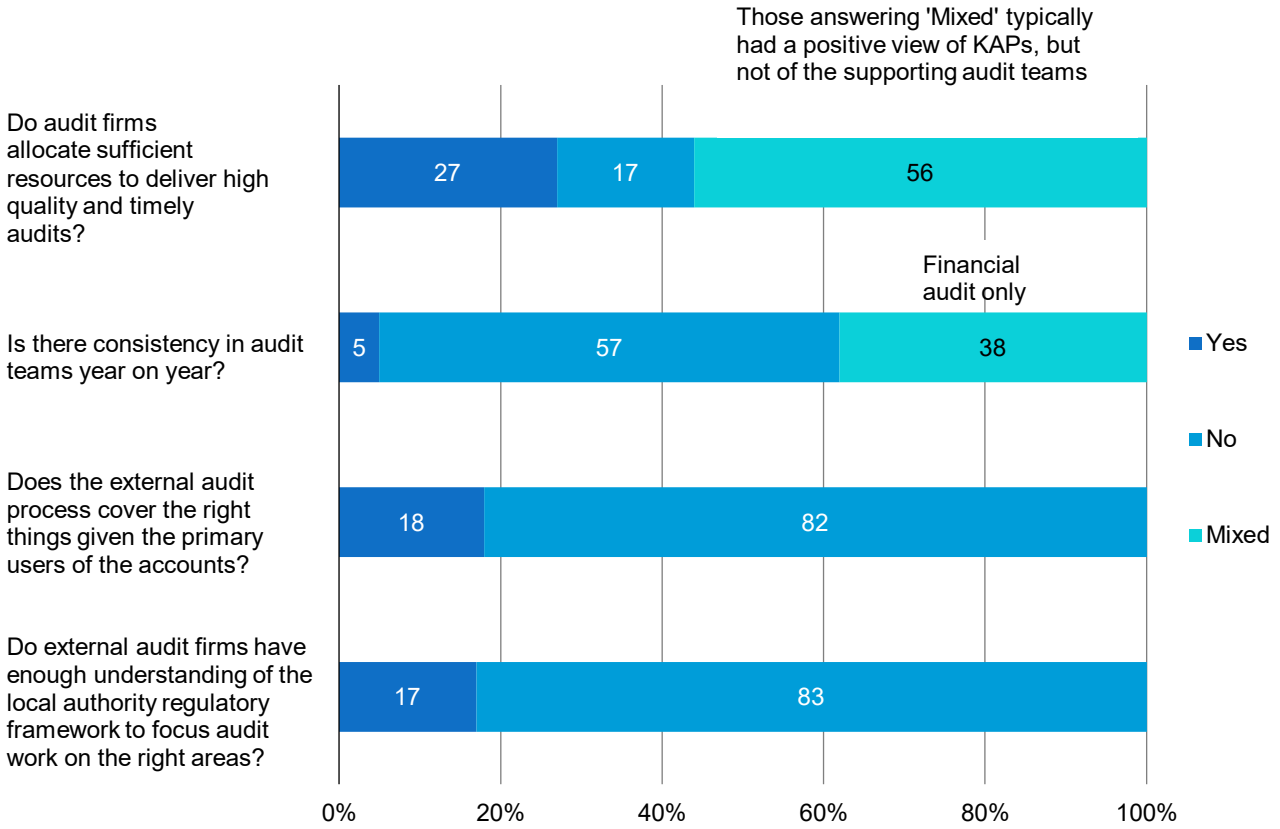
Knowledge, experience and continuity of audit staff

4.3.6 All audit firms active in the local audit market told the Review that they had expert technical teams who provided sector specific training to staff working on local authority audits. Nonetheless, many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit. Issues identified included:

- audit examiners not having a full understanding of how local authorities were funded and how this impacted the accounts;
- a lack of continuity from year to year, or in some cases from week to week, leading to a lack of client knowledge; and
- a lack of understanding of local authority specific financial statements such as the Collection Fund and Housing Revenue Account.

4.3.7 Local authorities also reported the use of audit examiners from other countries to help manage the local audit peak. This is not unique to audits in the local authority sector and can be advantageous as different countries will encounter different audit peaks. However, may local authorities whose audits are staffed in this way reported that such examiners processed very little training in respect of English local government.

Figure 4.1
Opinions on External Audit Quality



Local Authority Call for Views responses

4.3.8 Firms agreed that consistency in audit teams could sometimes be compromised by either the difficulty in attracting and retaining quality junior staff or the challenge to retain more experienced staff.

4.3.9 Underpinning the concerns about the quality and continuity of working level audit staff is a concern that there are not enough audit examiners with local authority expertise, and that this is an area in which accountancy trainees no longer wish to specialise.

4.3.10 This is a concern that has developed since 2015. Prior to 2012, the Audit Commission's in-house audit practice, District Audit (DA), was responsible for 70% of the local authority audit market. In its 2012 procurement the Audit Commission outsourced its audit practice. DA staff were TUPE'd[8] to the private sector firms who largely took over responsibility for auditing local authorities. This meant that there was then a plentiful supply of audit examiners with local authority experience. Since 2015, many of those audit examiners have left the external audit profession and have not always been replaced.

4.3.11 A reason for the decline in the number of audit examiners with sector specific expertise is the route taken by auditors to qualify as accountants. Currently, there are five chartered British and Irish professional accountancy bodies that include external audit as a significant element in their qualification. Only one of these bodies (CIPFA) has a mainly public sector focus. All District Audit service trainees would have followed the CIPFA qualification route. Only one of the firms currently active in the market (Grant Thornton) uses the CIPFA qualification route for its public sector audit staff. In addition, audit firms highlight that between 2010 and 2015 the Audit Commission cut back on its recruitment of audit examiners. This means that an increasing number of local authority auditors will not have had the public sector as their main focus whist studying for their accountancy qualification.

4.3.12 In March 2020, PSAA published research it had commissioned on the future of the local audit market.[9] In this research firms raised two main issues that made it difficult for them to attract and retain high quality staff that wanted to specialise in local authority audit:

- **Timetable** - In 2017-18 the target date for completing local authority audits was brought forward from 30 September to 31 July. This reform was requested by many local authorities, who wanted to complete their accounts and audit process as quickly as possible, so as to free up their finance teams to work on other areas. The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.
- **Fees** – Firms stated generally that the lack of profitability changes the way that local audit work is perceived within the firm. As the contribution that local audit makes to the overall profit of the Partnership is low, specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

[8] TUPE stands for the Transfer of Undertakings (Protection of Employment) Regulations and its purpose is to protect employees if the business in which they are employed changes hands.

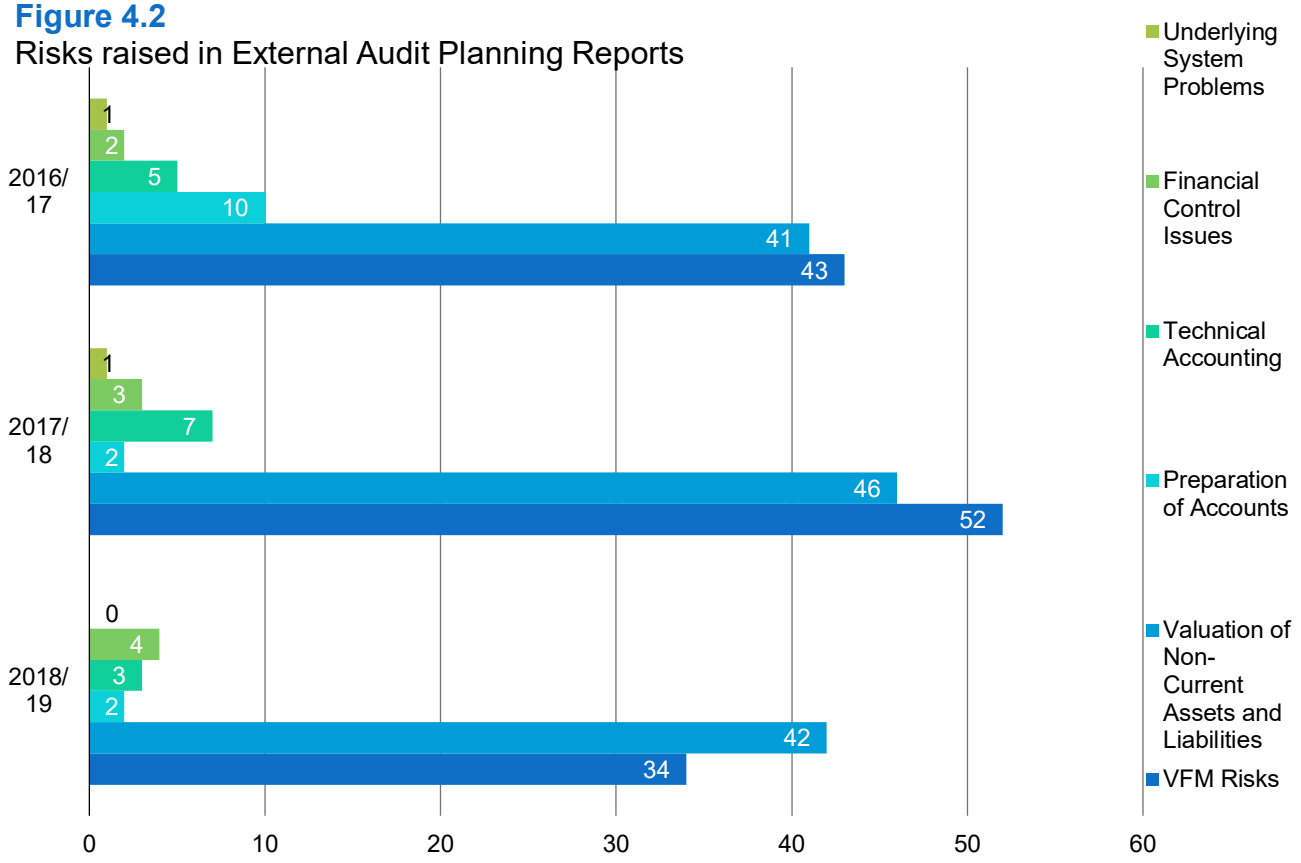
[9] https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Focus of audit work

4.3.13 Many local authorities have raised concerns that auditors spend a significant amount of time focusing on fixed asset and pension valuations, whereas a fuller understanding of the business would lead to more of a focus on major areas of expenditure, together with the level of usable non-ringfenced revenue reserves. The reason for this argument is that most changes to fixed asset and pension values are 'reversed out' of the accounts by a range of statutory adjustments. As a result, in those circumstances, these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority.

Figure 4.2

Risks raised in External Audit Planning Reports



Notes

1 Representative sample of 30 local authorities. Presumed risks excluded

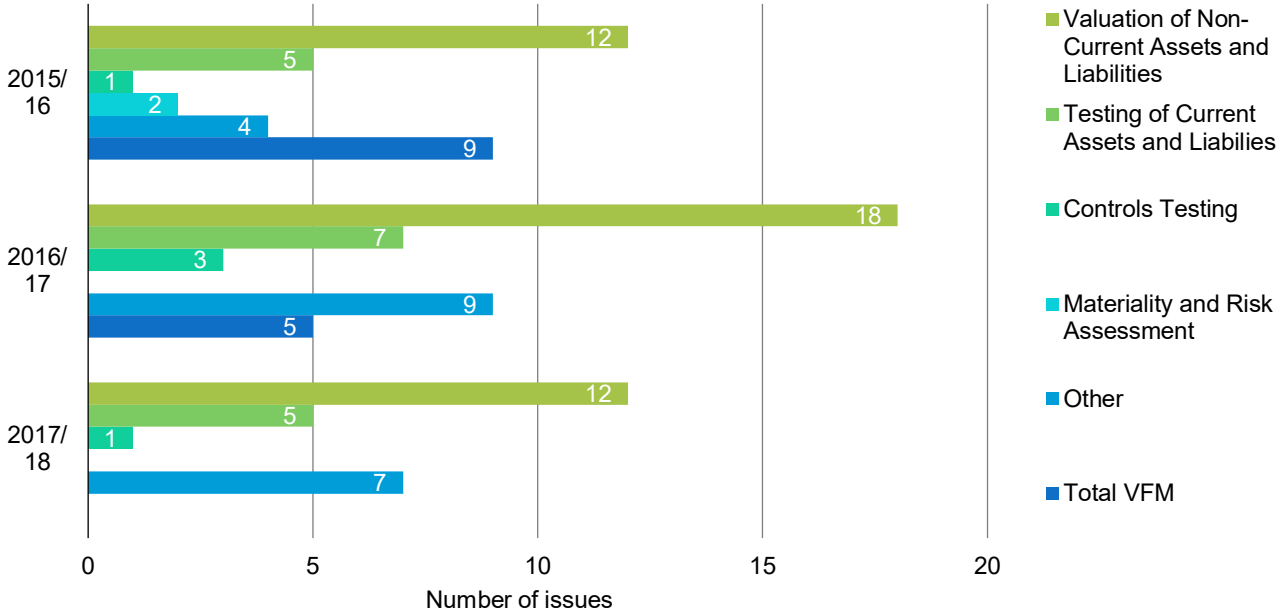
4.3.14 As demonstrated in **Figure 4.2**, valuation of non-current assets and liabilities have been the most common significant financial audit risk category identified in Audit Planning Reports. In addition, irrespective of the risk profile, the amount of detailed testing undertaken on these balances has increased significantly over the past three audit cycles. To manage the risk of regulatory criticism, that more scepticism is needed when assessing non-current assets and liabilities, audit firms are increasingly using their own expert valuers to assess valuations provided by a local authority employed expert. Some audit firms agreed that they would prefer to do less work on asset and pension valuations but explained that these areas of the accounts were given more attention as it was important in the context of securing a positive assessment from the FRC quality assurance processes.

4.3.15 The results of the quality assurance reviews of local authority audit files undertaken between 2015-16 and 2017-18 in **Figure 4.3** demonstrate clear and continuing concerns about the quality of audit work to support fixed asset and pension valuations. The FRC commented that, overall, the local authority audit files it reviewed tended to be of slightly lower quality than the files of corporate sector audits.

Figure 4.3

Issues identified by FRC file reviews conducted on behalf of PSAA

Eight reviews were conducted in 15/16 and 16/17 and 6 were conducted in 17/18



4.3.16 The FRC quality reviews identified far fewer significant issues in VfM audit work. This may be because the current Audit Code gives auditors quite a lot of discretion as to how much work they need to undertake before forming their VfM opinion.

Deliver audits in a cost-effective way

4.3.17 Since 2015, audit fees paid by local authorities have dropped by 42.25% (in cash terms). The decrease in fees has been welcomed by the LGA and by many local authorities. This reduction in fees has been attributed to the following reasons:

- PSAA costs being lower than those of the Audit Commission;
- Improved audit efficiency;
- Reduction in firms' profit expectations; and
- Reduced financial risks for the firms from staff previously TUPEd.

4.3.18 It is difficult to identify the extent to which local authority audits are more efficient than previously. All of the audit firms active in the market have looked to generate efficiencies through making significant investments in digital technology and innovation to equip audit teams with the appropriate tools to deliver a digital audit. However, audit firms note that many local authorities have IT systems that do not lend themselves to the delivery of a digital audit, so some of the anticipated efficiencies have not been realised.

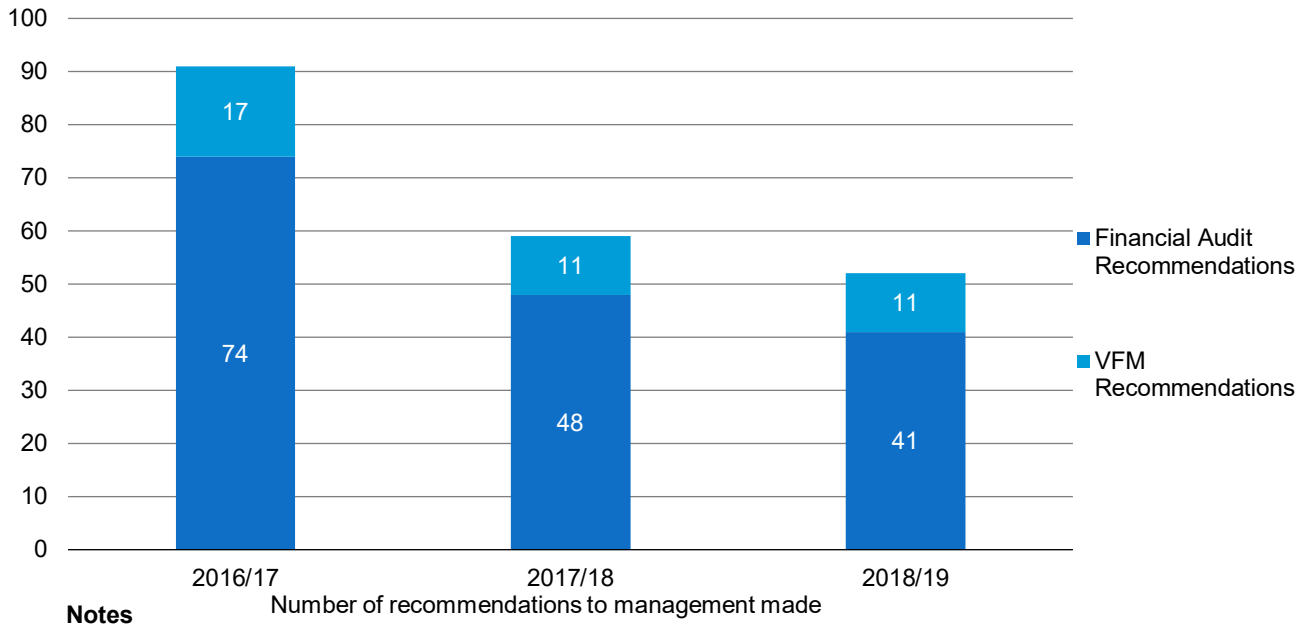
4.3.19 The decrease in fees must be set against the potential impact on quality if audit is considered to be cost effective. Audit firms have raised concerns about whether audit fees are at a sustainable level. One of the registered firms not active in the local authority market said that they had decided not to bid because it was impossible to deliver cost effective and high-quality audits at current fee levels.

4.3.20 Firms have the power to request fee variations where the cost of the work is greater than allowed for by the contract fee. As discussed in **Chapter 3** the fee variation process is an ongoing and increasing source of tension, with auditors concerned that they are not always able to recover legitimate costs. Local authorities are concerned about late notifications and that requested variations are not always supported by evidence of additional work done.

Make sensible recommendations

4.3.21 Auditors can issue recommendations to management through their end of audit communications. These can either be statutory recommendations, which must be copied to the Secretary of State, introduced through the "management letter" recommendations. Eleven statutory recommendations have been issued since 2015.

Figure 4.4
Number of External Audit recommendations given to local authorities



Notes

1 Representative sample of 30 local authorities.

2 Not all audits in 17/18 18/19 have been signed off in this sample.

4.3.22 As demonstrated in **Figure 4.4,** a review of Audit Completion Reports indicates that the number of management letter recommendations issued seems to be declining year on year. The practice on following up management letter recommendations was mixed and Audit Committees were more likely to check progress on implementation of internal audit recommendations rather than external audit recommendations. A majority of the recommendations made relate to technical accounting issues rather

than financial control or value for money matters. This is not surprising given the focus of external audit, but it contributes to a perception that the process is not adding as much value as formerly.

Provide useful and timely reports

4.3.23 As demonstrated by **Figure 4.5,** the number of delayed audit opinions has significantly increased over the past three years. For 2018-19, all the audit firms in the market had some outstanding audit opinions as at 30 September 2019, though the extent varied from firm to firm; one firm completed just less than 40% of audits by the deadline while another completed 80%. All firms have made progress in completing these delayed audits although at December 2019, there were still 85 outstanding audit opinions (17.5%); and by July 2020, 42 (8.6%) of 2018-19 audits remained incomplete. These delays are likely to have had a knock-on impact for the 2019-20 timetable.

Figure 4.5

Audit opinions signed off by the statutory deadline for publishing audited accounts

	2018/19	2017/18	2016/17
Opinions issued by the statutory publication deadline	57% *31 July 2019	87% *31 July 2018	95% *30 September 2017
Opinions issued by 30 September	70%	95%	N/A

*statutory deadline for publishing local authority accounts 30 September in 2016-17; and 31 July thereafter.

4.3.24 PSAA asks audit firms to explain the reason for delayed audits. The four most common reasons provided were:

- poor quality accounts/working papers submitted by the local authority;
- potential qualification issues;
- outstanding objections on the accounts; and
- for the first time in 2019-20, having insufficient qualified individuals to deliver all audits at the appropriate time was included as a reason for some of the delays.

4.3.25 Audits are by their nature backwards looking and the increasing delays in signing off local authority audits have an impact on the timeliness of reports. The more material issues that an auditor finds, the greater the risk that the sign off of the audit opinion is delayed. When a judgement needs to be made about modifying an audit opinion, audit firms are required to undertake enhanced quality assurance procedures, and these take time. In addition, some audits will be delayed if a local authority presents poor quality accounts or if there is an outstanding objection. As a result, a number of local authority audits will inevitably be signed off after the reporting deadline.

4.3.26 In recognition of the increased challenges posed by Covid-19, MHCLG has extended the deadline for signing off 2019-20 audits to 30 November 2020. If a majority of audits are not signed off by this date, there could be a significant impact on MHCLG's ability to run the non-domestic rates system effectively. It is too early to say how many

local authority audits will make this target date or whether the extension of the deadline will enable audit firms to complete more of the outstanding 2018-19 audits.

4.3.27 Examples of useful and timely auditor reporting through client communications are relatively few. Some local authority Chief Financial Officers commented that they no longer got the useful and informative advice, challenge and support that they had received from KAPs prior to 2015. Audit Planning Reports tend to be presented in February, March or April, which is rather late in the financial year. This means that local authorities get late notification of audit risks. In addition, it is not possible to undertake interim audit work on management controls if the plan is presented in the last month of the financial year and this increases the pressure on the year end peak.

4.3.28 If an Auditor is assessing a significant issue, which they believe needs to be brought to the attention of elected representatives and the public as soon as possible, the have the power to issue a Public Interest Report (PIR). PIRs can be issued at any time. However, only four PIRs have been issued since 2015. Three of these related to matters identified prior to 31 March 2015 and the fourth, issued on 11 August 2020, related to a wholly-owned local authority company.[10] This means that the opportunity to enhance transparency and accountability by sighting key stakeholders on significant issues in a timely fashion is not often used.

4.3.29 Audit firms have not commented on why there is not a greater use of the statutory powers available to them. The position in which auditors find themselves can relate to a situation where intervention in a local authority may be warranted by the use of statutory powers. It is possible that the legal and reputational risks of using these powers may play a part in their thinking as may the difficulty of recovering the costs of the extra work required to support use of these powers.

4.4 Interactions between external audit and relevant stakeholders

4.4.1 The areas of concern that particularly stood out from interviews with local authorities and through the Call for Views were:

- Senior audit staff not being contactable by clients when issues arose;
- Late notification of audit risks;
- Changes to the audit timetable – without justification given;
- Late notification of fee variations with no justification or breakdown of cost given; and
- The auditor's valuation expert overriding asset valuations provided by client experts with equivalent qualifications sometimes with no justification given.

4.4.2 It is important to note that these concerns are not unreciprocated. Auditors raised concerns about LAs not preparing properly prepared draft accounts supported by high quality working papers or not being available to answer audit questions.

4.5 VfM expectation gap

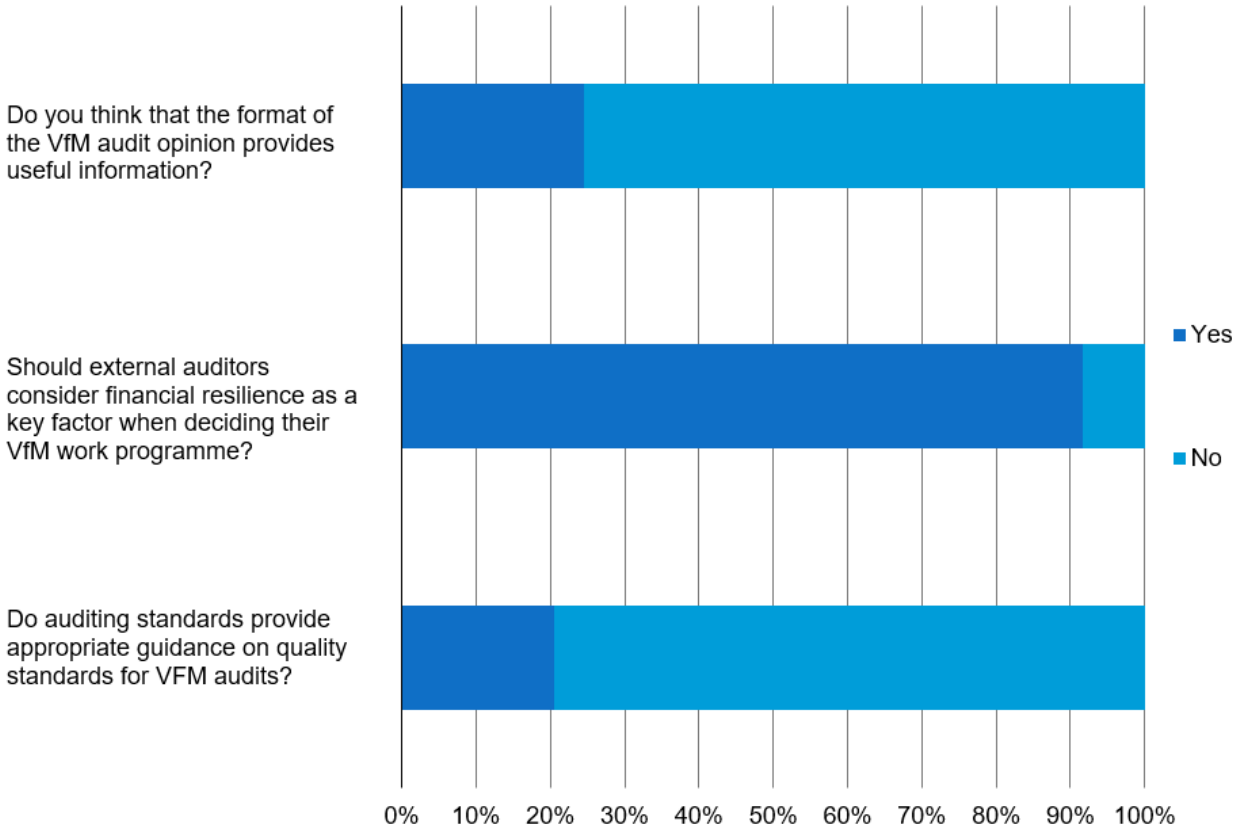
4.5.1 Whilst audit firms feel that the NAO's new code of practice resolves many of the VfM conclusion shortcomings, some local authorities believe that more significant changes need to be made. There is a large expectation gap between what local authorities

[10] https://www.nottinghamcity.gov.uk/publicinterestreport

expect a VfM opinion should provide and what it actually provides. The VfM conclusion is viewed by many local authorities to be an exercise with limited use to them as it is too retrospective and often states what the local authority often already knows. **Chapter 6** includes a more detailed consideration of the extent to which the VfM opinion covers financial resilience risks.

Figure 4.6

Opinions on the VfM opinion and auditing standards



Notes

1 Data from Local Authority Call for Views responses.

4.5.2 As demonstrated in **Figure 4.6**, 74% of the local authority respondents to the Call for Views think the format of the VfM opinion does not provide useful information. Some of these respondents recognised that the opinion is limited to giving assurance only that processes are in place to secure value for money and therefore that the opinion needs to be expanded to provide useful information. 79% of these respondents do not think the standards provide appropriate guidance on quality standards for VfM audits.

4.5.3 91% of respondents think external audit should be required to assess financial resilience. Although 3% of these respondents felt that financial resilience is already covered to an appropriate amount, most of the other respondents thought that financial resilience should be considered in the medium and long term as part of the value for money audit opinion. This included most audit firm respondents to this question, all of whom stated that the updated NAO Code of Audit Practice, effective from 2020-21, would provide a suitable level of coverage. No local authorities specifically mentioned the NAO Code of Audit Practice in their responses, although

this may be due to the fact that the updated Audit Code had not been finalised at the time the Call for Views closed. However, 16% of local authority respondents thought the non-statutory CIPFA Financial Management Code (published Oct 2019) could provide a suitable framework for assessing financial resilience and financial management.

4.6 Summary of audit performance

4.6.1 There is an expectation gap that extends across both the financial and the VfM audit. The coverage of the financial and VfM audits is far narrower than many stakeholders expect.

4.6.2 There are questions about the level of audit performance. In addition, although external auditors may be meeting the contract specification by delivering audits that, for the most part, meet the quality standards set out in ISAs and the Audit Code, an increasing number of audits are not being completed by the statutory deadline for publishing audited accounts.

4.6.3 Audit fees paid by local authorities have reduced, whereas, over the same period, they have increased in other sectors. There is some evidence that the reduction in fees has led to a decline in the number of examiners with appropriate skills, knowledge and expertise. This has had an impact on the timeliness of audits, the usefulness of auditor reporting to management and the quality of interactions between external auditors and local authorities.

4.6.4 Underpinning concerns about audit performance is a question of focus. There is a perception amongst many local authorities that an increasing amount of time is spent auditing fixed asset and pension valuations. It is clear that external audit increasingly has a greater focus on these areas, and that this has been driven by the requirement to meet quality standards and comply with relevant statutory guidance. What is less clear is the extent to which this has led to a reduction of audit work in other areas, but given the reduction in audit fees, it is likely to have had some impact.

4.6.5 It is more difficult to summarise audit performance in relation to the VfM engagement. This is partly because the 2015 Audit Code requires minimal documentation unless significant VfM risks are identified. This makes it impossible to assess whether the external audit assessment of VfM risks is complete in all cases. However, given the squeeze on audit fees and the reduction in the number of audit examiners with appropriate skills, knowledge and expertise, this remains a matter of significant concern.

5. Governance arrangements in place for responding to audit recommendations

5.1 Outline of the different frameworks in operation

5.1.1 The effectiveness of audit must, in part, be determined by the arrangements in place within each body subject to audit for considering and acting upon external audit reports. All local authorities are required to set up Audit Committees or the equivalent with responsibility for considering the annual accounts and receiving internal and external audit plans and reports. The specific arrangements vary between different types of local authorities. However, the purpose of an Audit Committee is to provide independent challenge on behalf of the authority in respect of accountability and risk management arrangements.

Arrangements within PCCs

5.1.2 A PCC is an elected official charged with securing efficient and effective policing of a police area. The policing function is delivered by the constabulary, led in large part by Chief Constables. PCCs are required to set up Joint Audit Committees covering the activities of both the PCC and the constabulary. These arrangements appear to work effectively and the findings and conclusions in the rest of this Chapter do not apply to PCCs.

5.1.3 Some PCCs also have responsibility for overseeing the delivery of Fire and Rescue Authorities, which deliver the fire service, in their local area. In other areas, primarily Shire Counties, the fire service is the responsibility of the County Council.

Arrangements within other types of local authorities

5.1.4 Mayoral Combined Authorities[11] are required by statute to have an Audit Committee, although there is no statutory guidance on the membership or remit. Whilst not a requirement for other types of local authorities, in practice most have set up an Audit Committee or equivalent.

5.1.5 Constitutionally, Audit Committees in local authorities are sub-committees of Full Council. This means that a majority of its members will be elected as a councillor or its equivalent. As highlighted in **Figure 5.1,** membership tends to be based on the political balance of the council and the chair is often, but not always, a member of the ruling group.

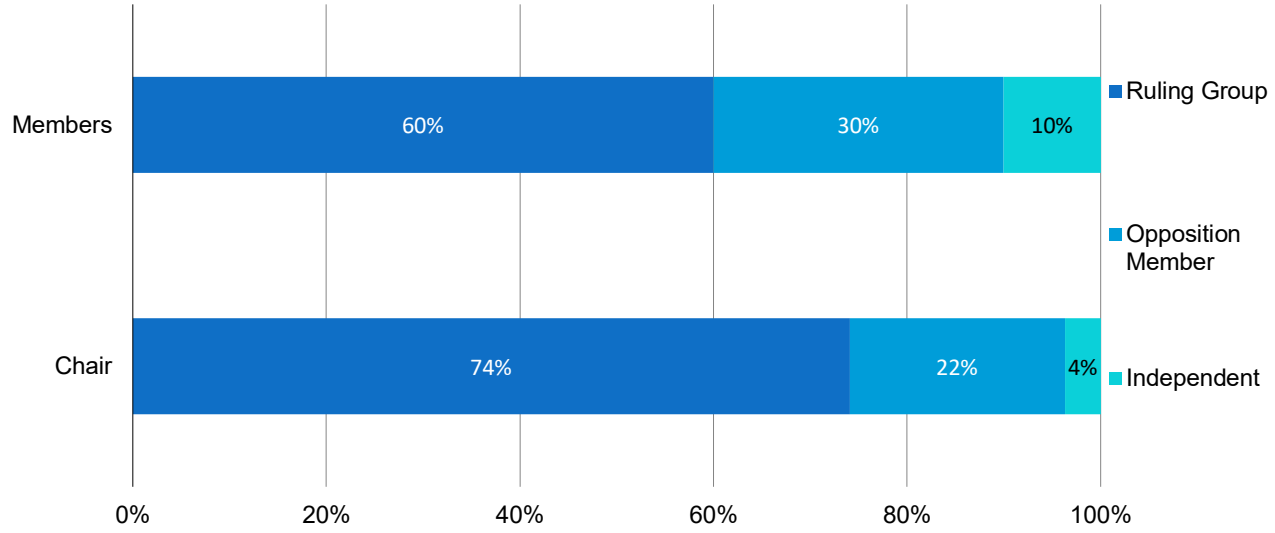
5.1.6 The number of members of Audit Committees varies from four to seventeen, with seven being the most common. This compares to common practice in central government and the private sector, which is to have no more than three or four Audit Committee members. The size of the committee might vary according to the number of councillors an authority has; however, Birmingham City Council, which by expenditure is the largest local authority and has more councillors (99) than any other local authority in England, has eight members on its Audit Committee, whereas the

[11] Combined Authorities are statutory bodies made up of neighbouring local authorities that broadly cover a city-region that have agreed to work together. A Mayoral Combined Authority is where a mayor is the directly elected leader of the combined authority.

Audit Committees of some Shire District Councils have memberships that far exceed this.

Figure 5.1
Composition of audit committees in councils

56% of committees had no independent members



Notes

1 Representative sample of 27 Local Authority Committees (not including FRAs or PCCs).

5.1.7 Local authority accounts are very complex and there appears to be a significant difference between the assurance that external auditors provide and public expectations. Elected members may or may not have relevant skills, expertise or background to fulfil the role of a member of an Audit Committee. Many local authorities provide training for Audit Committee members, but it has not been possible to assess how comprehensive or effective this training is. As a result, it is not possible to conclude whether members are always equipped to provide effective challenge to Auditors or Statutory Officers.

5.1.8 As part of its Audit Quality Reviews of 2018-19 audits, the FRC review teams have met with Audit Committee chairs of 12 selected local authorities. Although the reviews of the related audits are not yet publicly available, a mixed picture was reported, with some chairs being very engaged and informed, but others being less so. As the FRC is responsible only for the quality assurance reviews of the 230 larger local authorities and NHS bodies, the experience provided by their quality reviews may not be fully representative of the sector.

5.1.9 Whilst the vast majority of local authorities interviewed were supportive of the principle of appointing independent members, only about 40% of Audit Committees currently have done so. The reported experience of having independent members on Audit Committees was mixed. In some cases, they provided useful challenge, but some authorities reported that the effectiveness of independent members was hampered by their lack of sector specific knowledge.

5.1.10 A particular challenge for authorities is attracting independent members with the relevant technical experience. This challenge can sometimes be greater depending

on an authority's geographical location. Some PCCs have found that the introduction of Joint Audit Committees, which are seen as more prestigious, has made Audit Committee membership more attractive to appropriately qualified independent members, but there is still not an abundance of suitable applicants for vacant positions.

5.1.11 The independent member is often a voluntary position across the local authority sector. This compares to NHS trusts who are more likely to pay independent Audit Committee members, which may make it slightly easier for them to attract applicants with relevant expertise.

5.1.12 Local authorities have a number of statutory officers, three of whom have responsibilities that may be covered by audit work. They are:

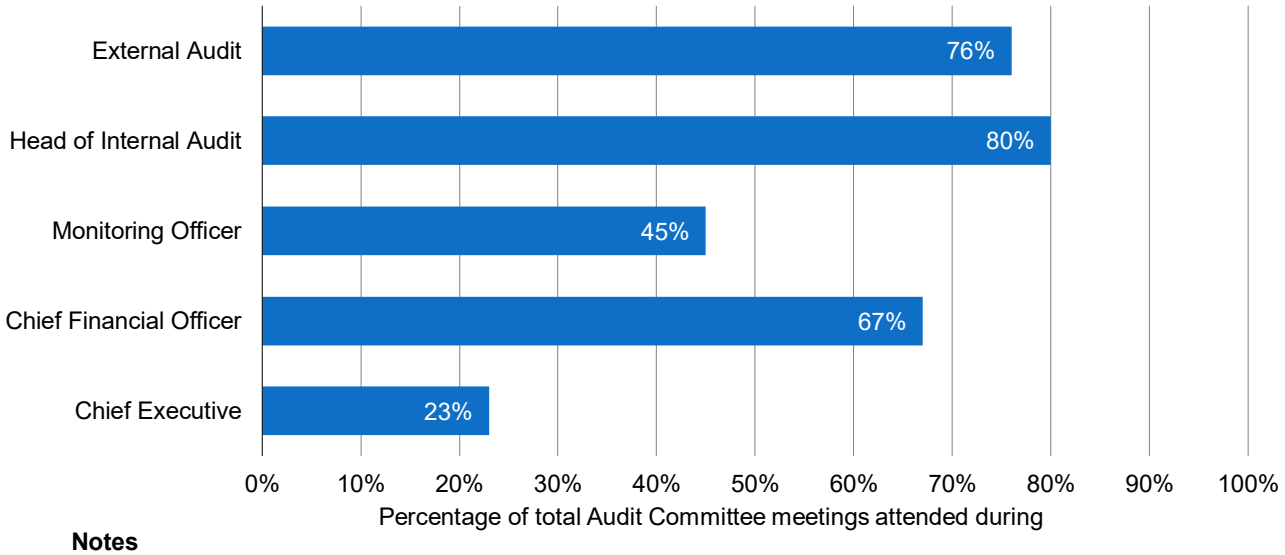
- The **Head of Paid Service** – typically the Chief Executive or Managing Director
- The **Section 151 Officer** – typically the Chief Financial Officer or Finance Director
- The **Monitoring Officer** – typically the Head of Legal Services

5.1.13 As demonstrated by **Figure 5.2** the frequency of attendance of statutory officers at Audit Committee meetings is mixed. Whilst the Chief Financial Officer and Head of Internal Audit attend a majority of meetings, Monitoring Officers attend just under half of the meetings and the Chief Executive attends such meetings less often. Other statutory officers and service heads usually attend Audit Committee meetings if a matter relevant to their service area is discussed.

5.1.14 The Chief Financial Officer is more likely to attend meetings where external audit completion reports are presented. Attendance of the Chief Executive increased by 2% and the Monitoring Officer attendance decreased. This may be reflective of the fact that in local government, the Chief Financial Officer signs the accounts on behalf of the local authority, or it may be indicative of the profile of external audit.

Figure 5.2

Audit Committee attendance: Local Authority Officers and External Audit Representative



Notes

1 Representative sample of 30 local authorities

5.1.15 In local government, representatives of external audit are not expected to attend every Audit Committee meeting. Based on a representative sample, the KAP attended 56% of meetings, rising to 87% of meetings where either external audit papers were tabled or where the final accounts were presented. For the 13% of these meetings where the KAP was not in attendance, external audit was represented by a less senior member of the audit team.

5.2 Scope of audit committees within local government

5.2.1 The scope of Audit Committees also varied between authorities. CIPFA's *Position Statement and supporting guidance on Audit Committees (2013)* says that the Audit Committee should cover:

- The annual governance statement
- The work of internal audit
- Risk management
- Assurance framework and assurance planning
- Value for money and best value
- Countering fraud and corruption
- External audit
- Partnership governance

and may also cover:

- Specific matters at the request of statutory officers or other committees
- Ethical values
- Treasury management

5.2.2 Most of the committees reviewed covered most of the items in the CIPFA position statement. There were two areas which had either minimal or no specific coverage: *partnership governance,* which was considered by only two of the 30 authorities reviewed; and *value for money and best value* which was not considered by any of those 30 authorities. The *CIPFA Survey on Local Authority Audit Committees* (November 2016) also found that Audit Committees were much less likely to consider these two areas. However, the scope of Audit Committees in local authorities is not limited to the areas suggested in the CIPFA guidance.

5.2.3 The scope of committees whose responsibilities included audit varied. The second most common name, after the 'Audit Committee' itself was a name which indicated the combining of audit with the functions of an overview and scrutiny committee. Overview and scrutiny committees are required by statute[12] and are responsible for overseeing and scrutinising the whole range of the Council's functions and responsibilities, as well as other public service providers' work and its impact on the local community. Whilst the functions of these two committees have some synergy, there is a question as to whether it enables the audit responsibilities to be fully addressed.

5.2.4 In one example a local authority had set up an Audit, Resources and Performance Committee. This is a significant concern because the prime purpose of an Audit

[12] Schedule 2, Localism Act 2011

Committee is to review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. The Resources Committee will use financial projections and risk management information to take decisions about use of resources. If the same committee is responsible for using information to take management decisions and providing independent assurance over the reliability of that information, there is no effective segregation of duties. There is also a potential for conflicts of interest.

5.3 Relationship between Audit Committees and Full Council or equivalent

5.3.1 Full Council has a role, ultimately, in responding to audit matters that is beyond receiving Public Interest Reports or qualified audit opinions. Full Council is generally more visible to the public than committees/subcommittees. The Council's public accountability to local taxpayers and service users is best served by having significant matters relating to audit discussed in a transparent and accessible way.

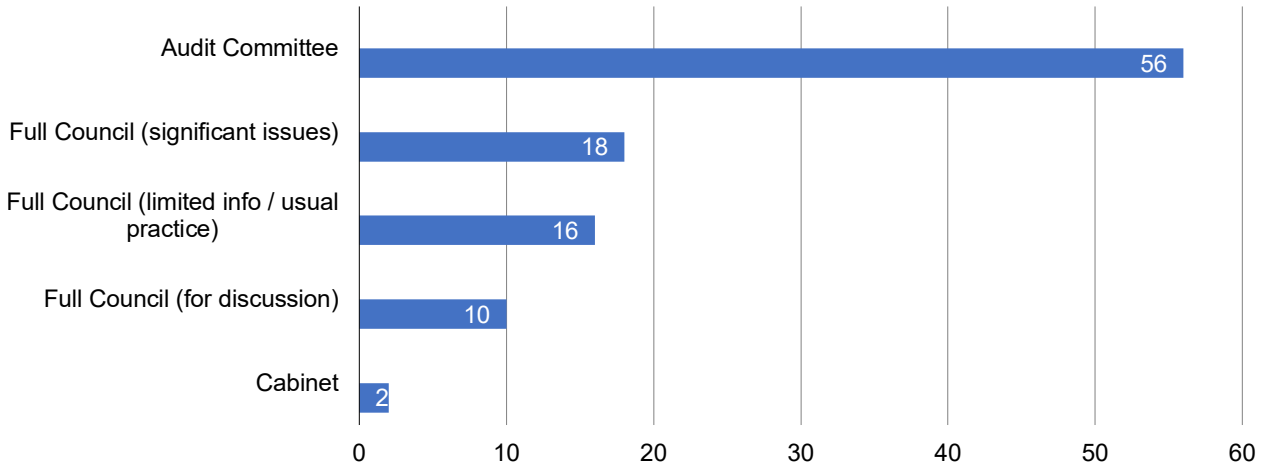
5.3.2 Matters raised at Audit Committee can be referred to Full Council. In addition, the auditor has the power to present some statements, for example an advisory notice that planned expenditure may be unlawful, directly to Full Council.

5.3.3 In practice the auditor tends to present matters to the Audit Committee, which decides if a matter is serious enough to be referred to Full Council. Most local authorities feel that this arrangement is appropriate. It is rare for an Audit Committee to put a substantive item onto the Full Council's agenda. The exception is the Treasury Management Strategy, where some local authorities have a practice of ensuring that it is considered by the Audit Committee before being forwarded to Full Council for approval.

5.3.4 Many local authorities stated that the existing relationship between Audit Committee and Full Council involved either forwarding for information a yearly summary report or meeting minutes and that this was considered to be sufficient. Many also commented that if there were significant recommendations made by the external auditor, such as a Public Interest Report, that then should be a matter for Full Council.

5.3.5 In some cases, some quite serious matters seem not to have been passed onto Full Council. For example, the 'best value' report into Northamptonshire County Council found that when the external auditor reported that appropriate arrangements to deliver best value outcomes were not in place, for the second year in succession, there is no evidence that the Audit Committee forwarded the qualified audit opinion to Full Council.

Figure 5.3
To whom should external auditors present audit reports and findings?



Notes

1 92% of local authorities respondents answered this Call for Views question

5.3.6 If this practice is widespread, there is a significant risk that in many councils, a majority of elected members may not be sighted on serious governance or financial resilience issues. This risk does not fully pertain to PCCs, where the PCC and Chief Constable are expected to attend the Joint Audit Committee and generally do so. There is a question as to whether Audit Committees, including Joint Audit Committees, are sufficiently transparent to local taxpayers and service users. Whilst by default, proceedings of these committees are public, it is not clear that taxpayers and service users are aware that they have a right to attend or to read the papers and the minutes.

5.3.7 As demonstrated in **Figure 5.3** most local authorities felt that external audit reports should be presented to the Audit Committee rather than to Full Council. Reasons given included:

- Full Council only taking items for decision;
- elected members not having the skills, knowledge or experience to understand the report unless they had received Audit Committee training.

5.3.8 Many commented that external audit reports should be reported to Full Council only in exceptional circumstances where there is significant cause for concern. One respondent commented that given the target dates and tight deadlines, there is insufficient time to report to Full Council prior to sign off of the accounts by the external auditors.

Raising the profile of external audit work

5.3.9 The content of the standard suite of external audit reports is mandated by auditing standards. Whilst audit firms have made significant strides in making reports more accessible to clients, much of the required disclosure is highly technical. Given this, it is perhaps understandable that many local authorities do not present such documents to Full Council.

5.3.10 Nevertheless, external auditors may have insights from their work, that could provide assurance to Elected Representatives that their local authority is being run with the best interests of service users and taxpayers in mind. The auditor also has the facility to sight elected representatives on matters that audit work has highlighted as a potential issue.

5.3.11 This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely. Given the increase in the number of delayed audits, this report should not necessarily be linked to the certification of the financial accounts as it should be made at the most useful point in the year. Comparatively few local authorities commented on what was the right point in the year to receive audit reports. Two thirds of those who did, expressed a preference for end-September, coming as it does near the start of the following year's annual budget setting planning cycle.

Collating the results of external audit work

5.3.12 Prior to 2015, the Audit Commission published an annual report summarising the results of the audits of local authorities and the NHS. Up to the end of 2017-18 responsibility for preparing this report passed to PSAA. The report summarised the number of audits completed by the statutory deadline and the number of qualified financial audit and value for money opinions, with the latter categorised by theme. It also listed all Public Interest Reports, Statutory Recommendations and Advisory Notices issued in the preceding year. It did not include any details on risks raised by auditors in their Audit Planning Reports or non-statutory recommendations made to local authorities. Just over two thirds of Call for Views respondents think a publication summarising the results of local authority audits adds value.

5.3.13 The responsibility for preparing this report was included in the Memorandum of Understanding between PSAA and MHCLG. When MHCLG decided not to renew the Memorandum of Understanding, PSAA's responsibility for reporting on the results of audit work lapsed. This reinforces the point that no entity currently has the responsibility to collate and report on the results of the work of the external auditors of local authorities and individual NHS bodies.

6 Audit work on the financial resilience of local authorities

6.1 Stakeholders' expectations regarding financial resilience

6.1.1 Reference has been made to the role of external audit in assessing financial resilience and sustainability in local authorities. In England, neither the financial nor the value for money audit includes a specific responsibility to provide an opinion on whether a local authority is financially sustainable.

6.1.2 However, it is legitimate to expect the auditor to examine the ability of the local authority to provide resources sufficient to deliver the statutory services for which it is responsible. It would not be appropriate for this Review to provide a commentary on local government funding, but there are a number of key questions that it would be reasonable to expect the auditor to assess. These could include:

- Has the auditor scrutinised the balance sheet to understand the debt profile of the authority and the level and depletion rate of usable reserves?
- What metrics does the authority use to determine the level of financial risk it faces?
- When the annual budget is approved by Full Council or equivalent, the CFO is required to present a "Section 25" report, providing a view on the reasonableness of financial estimates and the adequacy of reserves. Should the auditor be required to confirm that this report is sound?
- It is good practice for local authorities to prepare a mid-term financial strategy, normally covering a three to five-year period that is presented alongside the budget. Is it reasonable to expect the auditor to consider the assumptions underpinning this strategy or to form a view on its whether it is robust and realistic?
- Local authorities are also required to prepare statutory reports that have implications for financial sustainability and available resources in future years. These include setting a Prudential Borrowing limit, calculating an appropriate provision for repayment of debt (known as "Minimum Revenue Provision"), preparing an Investment Strategy, and potentially preparing a Flexible Use of Capital Receipts Strategy. Is it reasonable to expect the auditor to consider some of these strategies and estimates?

6.1.3 CFOs may have specific expectations of auditors. As previously indicated, many of the CFOs who contacted the Review made it clear that they valued the informal contact and challenge from the KAP. Dialogue between the KAP and the CFO does take place, if not on as wide a scale as it did pre-2015, and there is no doubt this can be beneficial. However, the independence of the auditor must be preserved in the way that advice and guidance may be tendered.

6.2 What does financial resilience mean in a local authority context?

The statutory framework

6.2.1 Financial resilience in a local authority is different to a private sector context. The powers and responsibilities of local authorities along with the financial control framework within which they operate are set by statute.

6.2.2 The services that local authorities are required to provide are set out in legislation along with the accompanying powers and duties. The statutory responsibilities to

deliver these services exist even if the local authority's resources may be considered to be insufficient at any given time.

6.2.3 The key financial controls set out in statute are:

- The requirement to calculate an **annual balanced revenue budget** for the upcoming financial year, that must be approved by Full Council or the equivalent. Local authorities are not allowed to run a deficit budget. Instead they are required to calculate a level of Council Tax that equates to the difference between income and expenditure. The increase in the level of Council Tax that can be charged is restricted by a 'referendum principle'. If a local authority wishes to raise Council Tax by more than a percentage specified by Ministers, they are required to put the planned increase to a referendum of local electors. Local authorities can borrow to fund capital investment but are not normally allowed to do so to finance in-year expenditure.
- The CFO's **"Section 25" report** on the robustness of the council's budget estimates and the adequacy of its reserves, which must be presented to Full Council alongside the annual balanced budget.
- The CFO has the power to issue a **"Section 114 notice"** if the CFO believes that the local authority is unable to set or maintain a balanced budget. After a section 114 notice is issued, the local authority may not incur new expenditure commitments, and the Full Council must meet within 21 days to discuss the report. There is no legal provision regarding what action they then must take. There is no procedure in law for a UK local authority to go bankrupt, and none has ever done so.

6.2.4 If a local authority mismanages its budgets over a number of years so that it is unable to recover its financial position, then central government has the choice of intervening under its "best value" powers, providing exceptional financial support, facilitating an offer of leadership and governance support from elsewhere in the sector, or using a mixture of these options.

6.2.5 Intervention on the grounds of lack of financial resilience is very rare. The most recent statutory intervention using best value powers was in Northamptonshire in 2018. Although there have been three other statutory interventions in the intervening years (Doncaster due to pervasive corporate governance failures, Rotherham due to institutional failure in responding to child sexual abuse and Tower Hamlets due to pervasive governance and financial impropriety issues), Northamptonshire was the first statutory intervention primarily due to financial resilience issues since Hackney in 2000.

6.2.6 In both Northamptonshire and Hackney, central government supported the council during the intervention by providing exceptional financial support, primarily by allowing receipts from sale of assets to be used to support revenue expenditure. Northamptonshire was also permitted to raise council tax by 2% more than other authorities for 2019-20 without triggering a referendum.

6.2.7 Whilst this might suggest that financial resilience is not an issue for local authorities, that may not always be the case. Firstly, central government support cannot always be guaranteed and secondly, a local authority experiencing severe financial resilience issues may also be facing governance and service delivery issues, with a

consequential impact on those who depend on those services. Furthermore, the impact of financial resilience issues on service delivery is iterative. It must be emphasised here that the system must identify and highlight financial resilience issues at the earliest opportunity in order to avoid negative impact on service. When a service fails, it is likely that that cost of recovery will be greater with a possible consequential impact on financial resilience.

6.2.8 This suggests that in a local authority context, financial resilience means the ability to manage budgets over the medium term whilst continuing to deliver high quality and effective services, that can be accessed by service users. The level of service provided is very important. Local authorities in financial difficulties can seek to cut costs by reducing the level of service. This may be the case for demand led services such as social care where it is more difficult to forecast accurately local demand pressure.

Commercialisation and local authority resilience

6.2.9 One of the most significant sectoral trends since 2015 is the increased commercialisation of local authorities. To simplify, there are two main categories of local authority commercialisation:

- Investment in commercial property, usually through the general fund; and
- Investment in wholly owned companies set up using the "general power of competence". The most common type of wholly owned local authority company is the housing company. Other examples identified include energy companies, recruitment agencies, back office service delivery companies and leisure trusts. PCCs and FRAs do not have a "general power of competence".

6.2.10 The risks commercialisation poses to local authority financial resilience were highlighted in a recent NAO study on *"Local Authority Investment in Commercial Property"*[13] which concluded:

"Buying commercial property can deliver benefits for Local Authorities including both the generation of income and local regeneration. However, as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs or may become significantly dependent on commercial property income to support services. At the national or regional level, Local Authority activity could have an inflationary effect on the market or crowd out private sector investment."

6.2.11 Although the NAO study focused solely on commercial property, this conclusion is as relevant to investments in wholly owned companies. If a company that is set up using the "general power of competence" gets into difficulty, the parent local authority may ultimately be responsible or may have to write off loans or equity funding, and this can impact financial resilience.

6.2.12 An additional risk with wholly owned companies is a potential lack of transparency. It can be very difficult for a reader to identify a local authority's exposure as a result of

[13] https://www.nao.org.uk/wp-content/uploads/2020/02/Local-authority-investment-in-commercial-property.pdf

investments in or loans to wholly owned companies by looking at the accounts. Unless an investment in, or transactions with, a wholly owned company is material by value, there is no requirement to consolidate the company's income, expenditure, assets or liabilities in the local authority's accounts. Instead, what is required is a disclosure of transactions between the authority and each of its wholly owned companies in what is known as the "Related Parties note". This note is presented less prominently in the annual report and accounts document. In addition, decisions a local authority makes pertaining to its wholly owned companies, including those relating to providing additional finance and awarding contracts, are often held in private on grounds of commercial confidentiality.

Defining local authority financial resilience

6.2.13 CIPFA has attempted to define financial resilience in a local authority context. In *Building Financial Resilience (Jun 2017)*[14]. This publication highlights four pillars of sound financial management and five indicators of financial stress.

Figure 6.1

CIPFA Pillars of Financial Resilience

Pillars of financial resilience	Indicators of financial stress
Getting routine financial management right	Running down reserves
Benchmarking against nearest neighbours – e.g. unit costs, under/overspends by service area, under-recovery of income.	Failure to deliver planned savings
	Shortening medium term financial planning horizons
Clear plans for delivering savings	Increase gaps in saving plans (i.e. where proposals are still to be identified)
Managing reserves over the medium-term financial planning horizon.	Increase unplanned overspends in service delivery departments.

6.2.14 The pillars of financial resilience identified by CIPFA related to process and governance points, so could be covered by the auditor's VfM opinion. Likewise, the indicators of financial stress could be covered by a sector-wide VfM audit framework.

6.2.15 An alternative and more detailed model, mentioned by some local authorities, is the seventeen principles set out in CIPFA's recently published Financial Management Code. Although only three of the seventeen principles are categorised under the heading of sustainability, in practice, all of the principles relate to matters that directly or indirectly contribute to an authority's capacity and capability to deliver sustainable services over the medium term.

6.2.16 A challenge common to both the *Pillars of Financial Resilience* and the *Financial Management Code* is that neither has any statutory basis. Whilst CIPFA requires its members to follow the *Financial Management Code*, compliance cannot be enforced. As a result, auditors may be reluctant to treat non-compliance with either as a matter serious enough on which to report.

[14] https://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities

6.2.17 A further challenge with the *Financial Management Code* is that the key principles are fairly detailed. Whilst an auditor could assess compliance with these principles, the costs of doing so in terms of both the auditor and of local authority time could be quite high.

6.2.18 Finally, neither the *Pillars* nor the *Financial Management Code* explicitly cover the impact of commercial activity on a local authority's financial resilience. General fund investments should be considered as part of the audit of financial accounts but wholly owned companies would only be considered if material enough to be consolidated into the accounts.

6.3 Current audit requirements to assess the sustainability and resilience of LAs in England

The Going Concern opinion

6.3.1 An underpinning principle of a financial audit is a 'going concern assumption'. The going concern principle means that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. When an auditor conducts the examination of the accounts, there is an obligation to review its ability to continue as a going concern for the next twelve months.

6.3.2 If the auditor concludes that there is significant doubt that the reporting entity is a going concern, the audit opinion is qualified, and a report explaining the auditor's financial resilience concerns is included with the audit opinion. In addition, if an entity is not a going concern, assets and liabilities must be valued at the amount they can be sold for rather than by assessing their ongoing value to the entity.

6.3.3 This particular way of validating a local authority's financial health has attracted much criticism from respondents. The view of practitioners is that that a local authority cannot face the prospect of bankruptcy/liquidity in the way that a company might.

6.3.4 In addition, local authorities are presumed to be a going concern for the purpose of forming an audit opinion, as the financial reporting frameworks for these bodies dictate a continued service approach, unless there is a clearly expressed Parliamentary intention to discontinue the provision of the services which the entity provides. The NAO has consulted on Supplementary Auditor Guidance, that reinforces this point.

6.3.5 87% of respondents to the Call for Views think the going concern assumption is meaningless in a local authority context. Respondents noted that local authorities would be likely to receive support from Central Government in the wake of a serious event. Many highlighted the example of Northamptonshire remaining a going concern for audit opinion purposes, even when the auditors had issued an advisory notice on what was considered to be an undeliverable budget. as an apparent example of the opinion's flaws. Those who responded that the opinion was meaningful included a majority of audit firms who acknowledged the going concern opinion's flaws and suggested changes but, on the whole, felt that it was still important that this assessment was carried out.

The value for money opinion

6.3.6 The other dimension of audit which could look at financial resilience is through the work required to support what is known as the 'value for money opinion'. The work required to support this opinion is governed by the NAO's Code of Audit Practice ("the Audit Code"). What the auditor is required to do is to form an opinion on the adequacy of the systems in place to support the economy, effectiveness and efficiency of service delivery. Under current practice in England, the auditor may test the adequacy of systems and procedures used to construct the mid-term financial plan but is only required to do so if a significant risk is identified during the audit. The auditor is not required to examine the mid-term financial plan from a sustainability perspective or form a conclusion on the financial resilience of the authority.

6.3.7 The update to the Audit Code, effective from 2020-21, will require auditors to provide a narrative statement on the arrangements in place. The aim of this statement is to provide more useful information to stakeholders, to report in a timelier manner and, through the move away from a binary opinion, encourage auditors to be bolder in highlighting concerns. The updated Audit Code has been broadly welcomed by stakeholders and has the potential to enhance value for money reporting in England.

6.3.8 What the updated Audit Code does not do is specify that auditors consider specific matters or judge local authority systems and performance against specific standards or good practice examples, such as CIPFA's *Pillars of Financial Sustainability* or their *Financial Management Code*. Nor does the updated Audit Code provide any guidance on how to assess whether a value for money risk is material.

Timeliness of the value for money opinion

6.3.9 Less than half of respondents to the Call for Views expressed an opinion on the timing of the VfM opinion. Two thirds of those who expressed an opinion agreed that the statutory reporting deadline of end-September was the right point in the annual cycle to present the VfM opinion, coming as it does near the start of the following year's annual budget setting planning cycle. Many commented that the external audit firms still had the capability to raise any significant VfM concerns outside this process, a process where they were happy with the content.

6.3.10 Those that disagreed included all but one of the audit firms who responded to this question. In addition, many of the local authorities who responded to the Call for Views didn't have strong opinions either way. Some thought that the opinion might be better presented in May, right at the start of the following financial year, but others expressed concern as to whether audit firms would have the capacity to handle a split reporting timetable.

6.3.11 A subsidiary, but still important, factor when considering the timing of the opinion is auditor resourcing. If the full benefits from the revised VfM opinion in the new Audit Code are to be realised, auditors will need to do more work.

6.3.12 Therefore, thinking about how to time the publication of the opinion so that it is of the most use, has the most impact, and can be supported by timely audit work must be a matter for serious consideration.

6.4 Practice in other jurisdictions

6.4.1 Audit requirements in other jurisdictions, for example Scotland, Wales and New Zealand provide alternative models, all of which provide practices that could help bridge the expectation gap between what auditors are required to do and what stakeholders expect them to do to assess financial resilience. The Review has explored New Zealand as it has a different model that is worthy of consideration.

6.4.2 Scotland and Wales have different models of value for money reporting, with Scotland's model requiring the auditor to assess future plans and Wales' model including the option for the auditor to undertake more focussed work on financial resilience as a separate engagement.

6.4.3 In New Zealand, there is no VfM opinion, but instead the financial audit opinion has been extended to cover a large number of pass/fail service delivery and financial resilience metrics. The financial resilience metrics are common to all authorities, allowing comparisons to be made.

6.4.4 Care needs to be taken when assessing the appropriateness of these models. There are currently 32 unitary authorities in Scotland, 22 unitary authorities in Wales and 78 local, regional and unitary councils in New Zealand compared to 343 local authorities in England. It may not be possible to scale-up practices that are appropriate in these jurisdictions to England in a coherent way or to do so at a reasonable cost.

Practice in Scotland

6.4.5 When scoping, planning, performing, and reporting on their 'best value' work, auditors in Scotland are required to consider four audit dimensions. The first of these, financial sustainability, interprets the short term going concern opinion and requires auditors to look *"forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered."*

6.4.6 The results of VfM audits of Scottish local authorities tend to produce quite rich reports, which the Accounts Commission, the public spending watchdog for local government in Scotland, uses to identify and highlight key trends and risks across the sector. For example, the *Local Government in Scotland, Financial Overview Report 2018-19 (Dec 2019)*[15] found that Scottish councils were increasingly drawing down on their revenue reserves; and whilst all councils had medium term financial planning covering the next three to five years, long term financial planning had not improved since the last report.

[15] https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf

Practice in Wales

6.4.7 The value for money audit opinion an auditor of a Welsh local authority is required to provide is the same as that in England; that is an opinion on the "arrangements for securing economy, efficiency and effectiveness in its use of resources". However, the Welsh Code of Audit Practice requires auditors to review significant arrangements in place irrespective of whether material risks have been identified.

6.4.8 Where an auditor identifies notable financial resilience or other value for money concerns, the Auditor General for Wales has the statutory power[16] to publish a separate substantive report. These reports are publicly available on the Wales Audit Office's website and provide an in-depth assessment of the issues identified and the appropriateness of the plans that the local authority has to address these.

Practice in New Zealand

6.4.9 Local authorities in New Zealand are required to report performance in the Annual Report and Accounts against a range of financial prudence benchmarks specified in legislation. The auditor is required to report on the completeness and accuracy of the local authority's disclosures against these benchmarks. As all of the benchmarks have pass/fail thresholds, they lend themselves to a binary audit opinion.

6.4.10 The purpose of this statement is to disclose the Council's financial performance in relation to required benchmarks in order to assess whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. Although the benchmarks are backwards looking, five-year trend information is presented which helps the user of the accounts to understand how effective the local authority is in managing its financial resilience.

6.5 The audit of financial resilience – a new model for England?

Introduction

6.5.1 There is a significant gap between the reasonable expectations of many stakeholders and what the auditor is required to do when assessing the financial stability and resilience of local authorities.

6.5.2 To help bridge the expectation gap, the scope of audit should include a substantive test of a local authority's financial resilience and sustainability. Care and attention will need to be taken to define how the auditor should address historical, current and future financial sustainability issues, so that the engagement does not become overly burdensome or provide false comfort to stakeholders. In addition, expanding the scope of the audit will increase costs, and there needs to be a balance between those costs and the potential benefits of additional audit coverage and reporting.

6.5.3 However, cost should not be a deterrent in and of itself. The expansion of the opinion to encompass financial resilience and sustainability would, potentially, provide comfort to the authority and to council taxpayers that the finances are in good order. This

[16] under Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009

would represent a genuine demonstration of public accountability both from a local authority and from an audit perspective.

Form of the opinion

6.5.4 The revised narrative opinion proposed in the new NAO code should lead to a significant enhancement in the usefulness of auditor reporting. The 2020 Audit Code sets out three reporting criteria (para 3.10)[17]:

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

6.5.5 These criteria are not dissimilar to the four reporting pillars in the Scottish model. The pillar that auditors of English local authorities are not explicitly required to report on is financial management. It is unclear why this has been omitted but a possible reason is that an auditor would normally be expected to review material financial management controls as part of financial audit work.

6.5.6 The reporting requirements contained within the 2020 Audit Code will take time to settle down and embed and there will be a role for the regulator in identifying and promoting good practice. However, if practice develops as the NAO intends, the new reports should provide more useful information to stakeholders.

Work required to support an assessment of financial resilience

6.5.7 The 2020 Audit Code requires auditors to do less work to assess financial resilience than is required in either Scotland or Wales.

6.5.8 Specifically, auditors in England will not be required to test whether the body is planning effectively to continue to deliver its services or the way in which they would be delivered over the medium or longer time horizon as in Scotland. Nor will auditors be requested to review the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, test the operating effectiveness of those arrangements as in Wales.

6.5.9 In addition to the factors mentioned in the Code, auditors could use the indicators of financial stress in the CIPFA publication, *Pillars of Financial Resilience*, as a key element of the risk assessment.

6.5.10 To support such an assessment the auditor could be required to critically assess and, in cases where significant risks are identified, test the CFO's Section 25 report along with any other statutory reports or management estimates that have an impact on medium or long term financial resilience. This testing could include an assessment

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

of whether there are clear plans for delivering savings, the usage rate for non-ringfenced revenue reserves and whether the local authority benchmarks its costs against nearest neighbours and takes appropriate action in response to variances, as set out in accordance with CIPFA's *Pillars of Financial Resilience*.

6.5.11 In addition, the auditor could explicitly be required to assess whether the local authority has complied in practice, and in spirit, with statutory guidance that it is required to "have regard to".

6.5.12 CIPFA's *Financial Management Code* is another model that provides a set of standards against which auditors could assess value for money and financial resilience. However, it is too detailed to assess without a considerable amount of additional audit work. Nevertheless, the principles in the *Financial Management Code* would enhance the consistency of local authority financial management. MHCLG could take the opportunity to give it statutory status when the opportunity arises and require local authorities to report on their compliance with it in their Annual Governance Statement. Since auditors are required to read the Annual Governance Statement to ensure it is consistent with their knowledge of the business this, combined with the enhanced resilience testing recommended, would require auditors to report material breaches.

6.5.13 Consideration has also been given to whether it would be appropriate to require a specific investigation. A more detailed report would enable specific VfM or financial resilience issues to be identified, as in the Welsh model. This is not recommended, as this element of the Welsh model is not applicable due to scale.

7. Financial reporting in local government

7.1 The purpose of financial reporting in the local authority sector

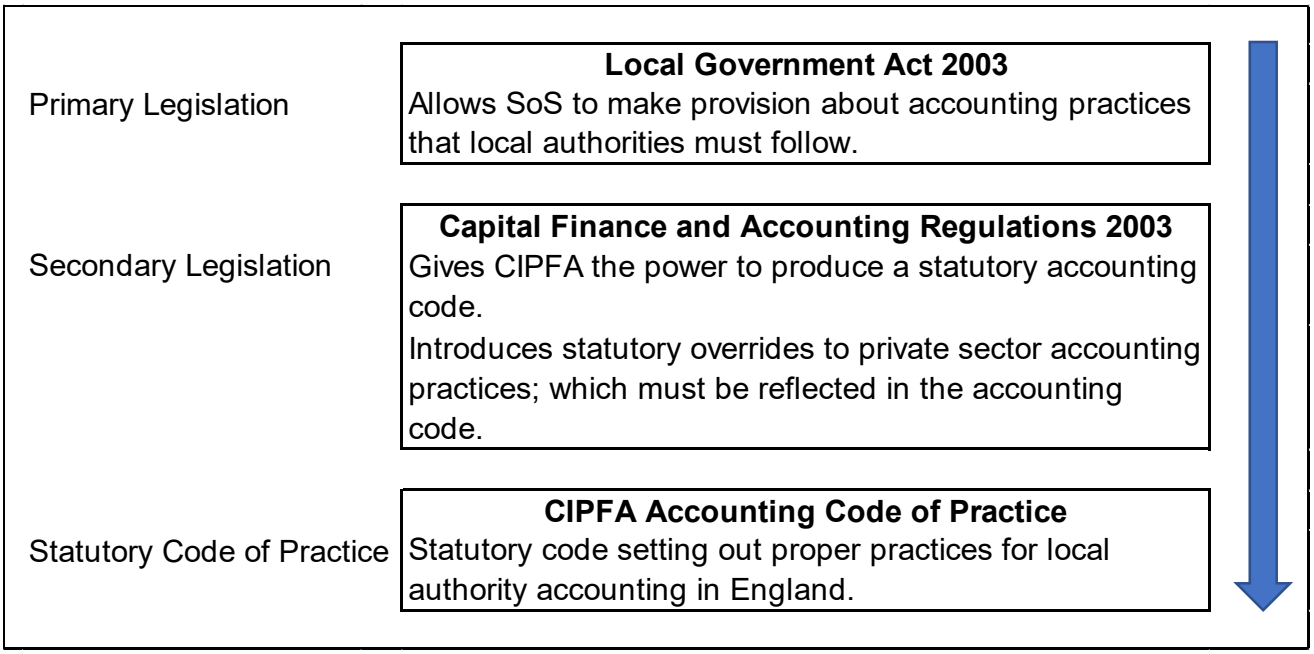
7.1.1 Financial reports provide information to people who seek to understand the performance of an entity. As most of the money that local authorities receive is provided from general or local taxation, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with this money.

7.1.2 Local taxpayers and service users do not have the power to require a local authority to produce bespoke financial information for them. Instead, they have to rely on the financial statements. They can inspect the financial statements and the underlying accounting records for a 30-day period that must comprise the first ten days in June. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to allow them to ask appropriate questions.

7.2 Introduction to the framework

7.2.1 When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these are overridden by specific statutory requirements. As set out in **Figure 7.1**, Government retains the power to use secondary legislation either to override normal accounting practices or to require local authorities to include additional disclosures in their accounts.

Figure 7.1
Hierarchy of the Local Authority Accounting Framework



7.2.2 When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of all the key stakeholder groups. MHCLG has observer status on this Board.

7.2.3 This Accounting Code board does not act in isolation. Its decisions are reported to the Financial Reporting Advisory Board (FRAB), which advises HM Treasury on public sector accounting. In practice, both the annual update to the Accounting Code and any amendments or adaptations to accounting standards for the local authority sector need to be considered at FRAB as well as at the CIPFA/LASAAC Board.

7.2.4 The Accounting Code applies to Principal Councils, PCCs, Chief Constables, FRAs, the GLA, Mayoral Combined Authorities, Passenger Transport Executives and National Park authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.

7.2.5 The Accounting Code is updated annually, and a new edition is published each financial year. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that at least one third of local authorities do not purchase an Accounting Code in any given year.

7.2.6 The Accounting Code does not apply to smaller authorities, for example Parish Councils, Ports Authorities or Independent Drainage Boards with gross income or expenditure of less than £6.5m per annum (which is currently all but one of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG), which comprises representatives of all of the key stakeholder groups. Smaller Parish Councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 8**.

7.3 Format of local authority accounts

7.3.1 Local authority accounts are very lengthy compared to accounts in other sectors, typically numbering in excess of 50 pages for shire districts and more than 80 for upper and single tier local authorities. They have more primary statements than central government and private sector accounts. **Figure 7.2** shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

7.3.2 Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector. This is primarily because there is a difference between the budget analysis of information for council tax purposes and the statutory basis of year end accounts.

Figure 7.2

Local Authority Accounts – Primary Statements and Supplementary Accounts

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
Movement in Reserves Statement (MIRS)*	Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes.
Balance Sheet	Sets out the Council's financial position at the year end.
Expenditure and Funding Analysis (EFA)*	Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.
Collection Fund Account* • Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA)* • LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

** Statements unique to local authority accounts*

7.3.3 Local authorities calculate their annual council tax requirement through setting a "balanced budget". The balanced budget calculation that local authorities are required to make is specified in primary legislation and is undertaken on a receipts and payments basis. Following the adoption of accruals accounting[18] by the local authority sector and as IFRS have continued to develop, successive governments have sought to protect council taxpayers from accruals movements that do not have an immediate impact on the costs of service delivery. They have done this through introducing statutory overrides.

7.3.4 The most significant of these statutory overrides relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the Movement in Reserves statement (MIRS) and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).

[18] Accruals accounting is a form of accounting where you recognise the economic cost of assets and liabilities over the period when benefits accrue. For example, if you are using accruals accounting and buy a car that you expect will last five years you would split the purchase cost of that car over five years. By comparison if you are accounting on a receipts and payments basis you would recognise the full cost of the car in the year you pay for it.

7.3.5 The adjustments process has two consequences. Firstly it substantially increases the length of local authority accounts as the financial statements report some transactions on both an accruals basis (through the CIES) and a funding basis (through the EFA and MIRS) and include notes reconciling the two; and secondly, unlike for financial statements produced by other sectors, neither the CIES nor the Balance Sheet shows the true financial position of a local authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

7.3.6 In addition to the statements in **Figure 7.2**, those local authorities who are also "administering authorities" for local authority pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. The Pension Fund accounts are audited as a separate audit engagement. This further lengthens the document and means that the audited accounts cannot be published as final until both the local authority audit and the pension fund audit have been completed. The sector has asked MHCLG to look at decoupling the local authority and pension fund accounts. However, it is not possible to do this without primary legislation.

7.4 Usefulness, understandability and transparency of local authority accounts

7.4.1 The Annual Accounts that each local authority must prepare are prescribed in detail and relevant standards must be observed in the preparation of the statutory accounts and financial report. IFRS cover both the public and private sectors so auditors seek to adhere to those principles when auditing local authority accounts. There is widespread agreement that the resultant accounts are not transparent or easily understandable.

7.4.2 Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and "market value" is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised. Underlying this point is the question of whether IFRS should continue to be a key element of local authority statutory accounts.

7.4.3 An issue related to the concern in local government about the complex local authority accounting arrangements is the capacity of the external auditor to test and validate technically intricate accounting treatment without a familiarity with local authority finance and accounting. Such an assertion by local government is not universal but it is a concern of many. However, the audit community, whilst recognising that there has been depletion in the number of auditors who served in the District Audit Service, is confident it has necessary skills and resources to fulfil the role.

7.4.4 As highlighted in **Chapter 4**, there is evidence of market stress in the supply of appropriately experienced and qualified local authority auditors. Some auditors have also argued that local government itself does not always have accounting staff with

the technical expertise to complete the final accounts without guidance and support from external audit.

7.4.5 That the local authority accounts are very complex is not in dispute. There is wide acknowledgment from all stakeholder groups that the annual financial statement of accounts is understandable only to those with the necessary technical and professional knowledge of local authority accounts. When asked whether local authority accounts allow the user to understand an authority's financial performance and its financial resilience, 93% of respondents said no.

7.4.6 Whilst some local authority respondents argued that the understandability of the accounts is not an issue, because service users and taxpayers can take assurance from the fact that they are prepared and audited to internationally recognised standards, it is questionable whether this is a defensible position.

7.4.7 The lack of transparency and understandability of local authority accounts raises a fundamental and serious challenge in terms of transparency and public accountability. Potential users extend beyond councils, government and auditors. Key stakeholders include council taxpayers/service users, the general public, academia, the media and local authority partners and contractors. Without an appropriate level of transparency these users may not have the information to challenge their local authority effectively. The rigour underpinning local authority accounting and auditing may not be at issue but the accounts, as currently structured and presented, do not enable the public to understand how local authorities are stewarding public funds.

7.5 Options for reform

7.5.1 There are three broad options for enhancing the transparency and usefulness of local authority financial statements, so that they better serve the needs of a wider group of stakeholders. These are:

- Review of IFRS as a basis for the preparation of local authority accounts.
- Expansion and standardisation of the current narrative statement.
- Introduction of a new summary statement presented alongside the IFRS accounts.

7.5.2 The underlying purpose of all three options is to strengthen financial transparency and accountability by providing a simplified presentation that is more relevant to stakeholders. All options have costs associated with them but these need to be set against the benefits of that increased transparency.

Review basis on which accounts are prepared

7.5.3 CIPFA could be asked to review the basis of accounts, with the aim of updating the Accounting Code so that the transactions presented in the annual financial statements are prepared on the same basis as the annual budget approved by Full Council.

7.5.4 If followed to its logical conclusion, this would allow local authorities to prepare simplified accounts that could be easily reconciled to the annual budget. If accounts are presented on a funding basis, the reconciliations between the funding and accounting basis would no longer be required. In addition, many of the lengthier notes

to a set of financial statements, such as the financial instruments disclosures, are mainly required to support IFRS disclosures and could be removed or simplified. This would lead to much shorter documents.

7.5.5 There are some issues that would have to be addressed with this recommendation. Firstly, designing and implementing a new accounting framework would be challenging. CIPFA could go back to the pre-2010 near cash accounting framework, but it is questionable whether this would be appropriate. Many local authorities are far more commercial in their operations and have far more leveraged balance sheets than in 2010, so removing much of the accounting for long term assets and liabilities could present a misleading picture of financial resilience to service users. It could lead to local authorities to leveraging their balance sheet yet further, storing up potential financial problems for future years.

7.5.6 Secondly, there is the perception risk of such a step. There could be a perceived disconnect if local authorities reverted to cash accounting at the same point that some are becoming more commercial, taking on more debt to invest in assets acquired solely or partially to generate a return.

7.5.7 Thirdly, moving away from IFRS accounting would create consistency problems between various parts of the public sector. The Accounting Code applies to Scotland, Wales and Northern Ireland as well as to England. If English local government moved to a near cash accounting framework, the other UK jurisdictions would face the decision of mirroring that move or else the Accounting Codes would need to diverge. In addition, the results of UK local government bodies are consolidated into the Whole of Government Accounts, which are prepared on an IFRS basis. If English local authority accounts moved to a near-cash accounting basis, those authorities would in practice be required to maintain financial records and prepare accounts on two bases: on a near-cash basis for their own accounts and an IFRS basis for consolidation into WGA. This would impose considerable additional cost.

7.5.8 Finally, the UK public sector is held up as applying a gold standard of accounting, primarily because it is one of the few to apply IFRS fully. If part of the sector moved away from this it could generate considerable reputational risk. As a result, HM Treasury and FRAB may well oppose any significant modification of the English local authority accounting framework.

Expansion and standardisation of the narrative statement

7.5.9 The framework for local authority annual reports and accounts is unusual in that, although local authorities are required to prepare an annual report, it does not include any mandatory disclosures. In 2015 CIPFA launched the “Telling the Story” initiative, which encouraged local authorities to use the annual report to accurately reflect financial and service performance. Some local authorities have produced innovative and informative annual reports following the launch of this initiative, but performance varies, with other authorities making minimal disclosures. In addition, because “Telling the Story” does not include mandated standards or disclosures it is not consistent across authorities.

7.5.10 By comparison, the UK Central Government Financial Reporting Manual (the "FReM") requires all central government reporting entities to prepare a Performance Report and an Accountability Report, both of which are based on Companies Act requirements as adapted for the public sector and contain mandated disclosures.

7.5.11 A similar approach could be adopted for local authority accounts. In this model, local authorities could be required to include a Performance Report in their annual report and accounts containing a reconciliation between the approved budget and year-end service expenditure, along with explanations for significant variances and the impact of the variances on revenue reserves, prepared on a budget setting basis whilst being reconcilable to the statutory accounts. Potentially this could be supplemented with standardised service delivery metrics and an explanation of longer-term risks and mitigations linked to key financial management strategies such as the Mid-Term Financial Plan, as appropriate.

7.5.12 The proposed Performance Report could be a transparent element of a local authority's Annual Report and Accounts, which discloses what the local authority planned to spend on each major service area, what it actually spent, where there were significant variances between the two what the reasons were, and what impact that has had on the reserves available to support the following year's expenditure. With the addition of service delivery metrics, the Report could also start to give an indication of what service users and taxpayers have got for their money. If the financial information and performance metrics are prepared to common standards, this could start to bring a degree of comparability between authorities, which could promote improvements in the effectiveness and efficiency of service delivery.

7.5.13 Finally, if the reconciliation between budget and outturn is presented in the Annual Report, it may be possible to remove or reduce the MIRS, the EFA and supporting disclosures. This could offset the increased work required to produce the new Performance Report.

7.5.14 There are some challenges with this approach:

- it would mean extending the scope of the audit engagement, particularly if the auditors are required to form an opinion on non-financial information.
- if non-financial service delivery metrics are subject to audit they will need to be prepared and disclosed on a consistent basis. It will be necessary to identify appropriate metrics across a range of service areas, a process that could take time. In addition, including metrics for all of the services that a local authority provides would require very lengthy disclosures.
- if included in a long Annual Report and Accounts document, there is no guarantee that this statement would be any more visible to the general public than the current financial statements are.
- there is a risk that some local authorities use the narrative element of such a statement to present an overly positive view of their achievements and finances.

Introduction of a new summary statement

7.5.15 A variation in part, and a replacement of the enhanced narrative statement, is to leave the current local authority accounts largely unaltered and instead require the production of Summarised Accounts, prepared on the budget setting basis. As with the enhanced narrative statement, the Summarised Accounts would need to be reconcilable to the Statutory Accounts and be subject to audit to have credibility.

7.5.16 Statutory Guidance would need to be developed to set out the form and content of the Summarised Accounts. Potentially they could contain:

- A statement of service information and costs prepared in a standard format and to a standardised framework. The most appropriate framework would probably be the statutory Service Reporting Code of Practice (SERCoP).
- Comparison between budget setting information and outturn performance.
- A degree of detail to encompass all key service expenditure heads; where appropriate this could be extended to present unit cost information. A simplified balance sheet, including some form of assurance relating to non-ringfenced revenue reserves and debt levels and borrowing plans, with the latter linked to the Prudential Framework disclosures, could also be produced.
- A brief narrative. This could be limited to a financial commentary comprising explanations of significant variances between budget and outturn along with an assessment of the impact on medium term financial sustainability. It may also be possible to include a brief description of outcomes though this would need to be linked back to the objectives set when the annual budget was approved.

7.5.17 The aim of this document would be to present a statement aimed at the local community rather than as a basis for compiling national statistics. Because of differences between local authorities, comparability would be difficult and potentially misleading. Local authorities could be asked to think about a range of communication methods to reach their local communities more effectively.

7.5.18 The summary accounts would be a vehicle to increase transparency. As this would be a short stand-alone document, it would be much more accessible to taxpayers and service users.

7.5.19 Local authorities would have to reconcile outturn between the funding basis and IFRS accounting basis. However, the value of disclosing these reconciliations could be reassessed, potentially allowing the MIRS, the EFA and supporting disclosures to be discontinued. This could allow the statutory financial statements to be prepared on an IFRS basis without statutory adjustments.

7.5.20 Finally, consideration would need to be given as to the level of audit required for the Simplified Statements, and the agreed procedures that auditors would be required to undertake to provide assurance over reconciliations between the IFRS Financial Statements and the Simplified Financial Statements, that are not disclosed in either.

8. Smaller authorities

8.1 Introduction

8.1.1 Smaller authorities are defined in the 2014 Act as an authority where the higher of gross annual income or expenditure does not exceed £6.5 million for three years (or one or two if the authority has not existed for three years). Currently there are just under 10,000 smaller bodies, only one of which has to prepare a full set of IFRS compliant accounts and undergo a full audit.

8.1.2 There are different types of smaller authority with a varied range of responsibilities and powers:

- Local councils including Parish, Town, Village and Community Councils and parish meetings. Some common responsibilities can include, but are not limited to, commons and open spaces, car parks, lighting, footpaths, leisure and sports facilities, litter bins, and tourism activities. Some of these services are delivered on behalf of the unitary and district councils.
- IDBs which are responsible for managing water levels including managing flood risks and land drainage.
- Other smaller authorities such as charter trustees, port health authorities, conservation bodies and crematorium boards.

Smaller authorities are financed primarily through a precept which is collected as part of council tax by the unitary or district council. They can also apply for grants and awards.

8.1.3 Governance arrangements depend on the type and size of the authority. All local authorities are required to have a clerk; however, for small authorities, this could be their only employee or may be a volunteer or part-time worker. Roughly two-thirds of smaller authorities have a single employee, and some don't have any employees. The clerk is analogous, in part, to a CFO in a principal authority, as there is a requirement to give guidance to councillors, in many cases carrying out the role of the Finance Officer. Smaller authorities must publish the statement of accounts together with any certificate or opinion provided by the local auditor[19].

8.2 Scale of audit

8.2.1 Smaller authorities are not required to produce IFRS based accounts but instead produce a simplified statement of account on a receipts and payments basis. Some larger Parish Councils present accruals-based accounts alongside this, although these are unaudited. As set out in **Figure 8.1**, smaller authorities are either exempt from audit or undergo a 'limited assurance engagement'. As the name suggests, this provides less assurance than a full-scale audit.

8.2.2 While most authorities with an income or expenditure of up to £25,000 are exempt from audit, a request can be made for a 'limited assurance engagement' from SAAA who will then appoint an auditor to undertake this work. More than 100 bodies have chosen to do this.

[19] The Accounts and Audit Regulations 2015
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Figure 8.1

Table of audit thresholds and associated requirements for smaller authorities [20]

Level of income or spending	Form of external assurance to be provided from 2017-18 onwards	% of smaller authorities in each band
More than £6.5 million.	'Full audit' under international auditing standards.	0.01%
Up to £6.5 million but more than £200,000 (accounts on income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	11%
Up to £200,000 but more than £25,000 (accounts can be on either receipts and payments or income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	31%
Gross income or gross expenditure up to £25,000	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt. Work by an auditor may still be needed in certain circumstances – notably if there are objections to the accounts.	58%
No financial transactions and no accounts	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt.	

8.2.3 Smaller authorities are also required to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes[21]. Quality of internal audit staff is said by some respondents to be variable, which has the potential to cause issues for the external audit.

8.2.4 One of the trends in recent years has been the transfer of assets and associated running costs to Parish Councils. If smaller authorities are given more responsibility, or if the spending of smaller authorities were to change to where many such authorities approach the £6.5 million threshold, the current accountability arrangements may no longer be appropriate. The assurance levels may need to be reviewed by MHCLG. This is especially pertinent as smaller authorities are not bound

[20] NAO AGN02 Specified Procedures for Assurance Engagements at Smaller Authorities https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-02-Specified-Procedures-for-Assurance-Engagements-at-Smaller-Authorities.pdf

[21] The Accounts and Audit Regulations 5(1) 2015https://www.legislation.gov.uk/uksi/2015/234/made#:~:text=5.,internal%20auditing%20standards%20or%20guidance.

by council tax referendum rules[22] and can raise their precept by the amount they consider necessary.

8.2.5 In 2020, one IDB met the threshold for preparing full statutory accounts. Available evidence suggests that this is the first occasion of this happening. The cause of the IDB's increase in income and expenditure was the capital grants it received and, as such, the requirements for a full code audit may be temporary. PSAA and the Association of Drainage Authorities (ADA) have worked with the authority to find a new auditor as the previously appointed auditor does not qualify under the statutory framework to undertake full audits. This also resulted in an increased audit fee, from less than £5,000 to £40,000. Producing full IFRS accounts will considerably increase the amount of internal work required by the IDB and this is likely to represent a challenge to its available skills and infrastructure.

8.3 Procurement of audit

8.3.1 Prior to 2017, smaller authorities were included in the audit contracts let by the Audit Commission in 2014 that were taken over by PSAA through the transitional arrangements. SAAA was designated as an appointing person under legislation[23] by the Secretary of State to take over this role from 2017-18. SAAA is an independent, not for profit company. SAAA was set up by the National Association of Local Councils (NALC), Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). Although smaller authorities have the same power to appoint their own auditors as principal authorities, in practice, all smaller authorities opted in to SAAA's procurement. SAAA has appointed external auditors for a 5-year period from 1 April 2017.

8.3.2 SAAA's procurement comprised 17 equally sized lots. Other than for IDBs, which were grouped together, lots were geographically based. The SAAA procurement was based on price once a supplier had met a minimum quality threshold. There were five firms that met this threshold. The result of this exercise was that 15 were awarded to a single audit firm and two other firms won one lot each. This met SAAA's declared objective of having a minimum of three firms in the market. Of the three firms, two had previously held contracts with PSAA and one re-joined the market. With regard to the quality and price ration for appointing auditors, SAAA believes that once a certain threshold is reached, it is very difficult to differentiate between firms on the basis of quality.

Fee scale

8.3.3 SAAA's fee scale is based on 15 bands of income or expenditure (whichever is higher). Audit Commission and then PSAA, through the transitional arrangements, also used this fee scale. Exempt authorities do not pay an audit fee. Authorities with income or expenditure of between £25,000 and £50,000 pay an audit fee of £200. Fees rise in stages up to a maximum of £3,600 in cases where income or expenditure is more than £5 million but less than £6.5 million.

[22] The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012 https://www.legislation.gov.uk/ukdsi/2012/9780111519035/regulation/3

[23] The Local Audit (Smaller Authorities) Regulations 2015 https://www.legislation.gov.uk/ukdsi/2015/9780111126103

8.3.4 The scale fees paid by smaller authorities for their audit have remained unchanged for the past 12 years. There have been savings for those smaller authorities that, from 2017, could declare themselves as exempt and, therefore, did not have to pay for an audit.

8.3.5 This audit fee model relies on larger authorities supplementing the cost of audit work for smaller authorities. As there are 15 bands of fees, there may be councils receiving the same level of audit work whilst paying different amounts. Although this may offer the most efficient method of payment to ensure audit is affordable for all smaller authorities, the banding system may warrant review.

8.3.6 Overall, smaller authorities seem content with the level of audit fees they pay. The only area of concern raised related to capital grant funding. Two Parish Councils raised concerns that the impact of the rising scale fee could be a deterrent for local authorities investing in future capital schemes in the local community.

Fee variations

8.3.7 Smaller authorities may be subject to variations to the scale fees set out above if additional work is needed. Some of this work is costed as a fixed supplement of the fee scale and some is charged at fixed hourly rates. SAAA agreed a maximum hourly rate for additional work and this is published on their website. Examples of where fee variations may be charged include the auditor considering objections to the accounts from local electors, and where special investigations are undertaken.

Quality

8.3.8 There is no indication that the smaller authority audit market is encountering delayed audit opinions, as is the case for larger authorities. SAAA use trackers completed by the firms to collate and analyse key management information to track and report on the management, delivery and the outcomes of limited assurance reviews. SAAA also reviews the underlying data quality and system interfaces on a light touch risk basis.

8.3.9 In carrying out its quality assurance role, as set out in the Appointing Person Legislation, SAAA review and test the firms' internal quality assurance processes and contract compliance systems (quality aspects) to ensure the delivery of good quality reviews. An overall rating for both quality of limited assurance review work and contract management, compliance and data quality is provided. The findings of this process are reported to each firm and to SAAA's Board. They do not publish these findings, though they maintain the right to do so.

8.3.10 A very small number of smaller authorities responded to the Call for Views; therefore, it must be stressed that the following comments are not necessarily reflective of the sector. One Parish Council commented that the arrangement with SAAA made it feel that the auditor didn't consider the council to be its customer. Similar feedback has been received concerning PSAA's role. It also commented that it felt the quality of their audit was very poor and that it added no value. This may be in part due to the framework of limited assurance audit for smaller authorities and a resulting 'expectation gap'. The Review is unable to corroborate whether this is a commonly held view.

8.3.11 Two other Parish Councils questioned whether auditors provided the right level of assurance. One commented that larger Parish Councils should be held to the same standards for financial reporting, transparency and accountability as those applied to principal authorities of equivalent size. The council linked this to the fact that some councils are playing an increasingly significant role in their communities. It is true that there are currently three smaller authorities that have an annual income or expenditure of over £5 million which is similar to the smallest Category 1 authority which is subject to a full audit. However, there are not many Category 1 authorities that are this small. The other respondent was specifically concerned about governance and financial transparency within the council and the lack of clarity on spending.

8.4 Accountability

8.4.1 In addition to producing a financial return, most smaller authorities are subject to transparency requirements. There are two Transparency Codes; authorities with an income or expenditure of £200,000 or more are included in the same mandatory Transparency Code[24] as principal authorities. Exempt authorities are subject to a specific smaller authority Transparency Code[25], made mandatory in April 2015, that:

"will enable local electors and ratepayers to access relevant information about the authorities' accounts and governance".

8.4.2 Authorities with income and expenditure under £200,000 but above £25,000 are expected to follow the same requirements but it is not mandatory. As these authorities are subject to audit, the transparency code was not considered to be applicable. Such difference in approach may warrant further attention. However, Commitment 8 in the governments UK National Action Plan for Open Government[26], sets out the government's plan for local transparency which includes MHCLG developing proposals to:

"help and encourage councils to publish all the information they can".

Objections

8.4.3 Local objections can be made to an item of expenditure in a smaller authority's finance return. It is very difficult to ascertain how many objections to the accounts smaller authorities receive, as the auditor is required to respond, by statute, only to the objector. As a result, most objections are never made public, the exceptions being if an objector choses to publish a response or the investigation leads to a Public Interest Report. However, one authority reported over 100 objections in a single year. NALC commented that several authorities at the smaller end of the income and expenditure level are consistently subject to objections, sometimes by the same individual or group of objectors.

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[24] Local Government Transparency Code 2015
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf

[25] Transparency Code for Smaller Authorities
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf

[26] 2019-2021 UK National Action Plan for Open Government
https://www.opengovernment.org.uk/resource/uk-national-action-plan-for-open-government-2019-2021/

8.4.4 The auditor is responsible for reviewing all objections that meet the statutory requirement. In deciding whether to investigate, the auditor has to review the objection, which will result in a cost to the authority (not exceeding the maximum hourly rates as specified by SAAA) even if they do not subsequently pursue an investigation.

8.4.5 The auditor can refuse to investigate an objection[27] if:

- the cost of dealing with the complaint would be disproportionate to the underlying sum;
- the objection is frivolous or vexatious; or
- it is a repeat of a complaint made in a prior year of account.

8.4.6 A number of smaller authorities receive repeat or vexatious complaints. Where an authority receives such a complaint, it can choose to terminate communication with the complainant. However, if that individual raises an objection, an auditor must consider it to see if it is something to be pursued. This work incurs a supplement to the scale fee as set out by the SAAA. Given the size of many smaller authorities, objections can be proportionately very costly, both in terms of additional fees paid to auditor firms and in terms of resources that the authority requires to support, appropriately, the objection process. As with larger authorities, outstanding objections can cause a delay in issuing the audit opinion

8.4.7 The objections regime does provide a solid basis of accountability and ensures the auditor investigates potential issues further, to supplement the 'limited assurance' audit. There may be cases where the system is misused. Consideration should be given to provide more support to auditors to enable them to identify repeat or vexatious objectors in a more efficient manner.

Public Interest Reports

8.4.8 External auditors have a duty under the 2014 Act to consider whether to issue a report where there has been a significant matter identified that needs to be addressed in the interests of the public. There are more PIRs issued for smaller authorities than there are for larger authorities. SAAA publishes reports from the 17/18 financial year on their website, and previous financial years are available on the archived PSAA website.

Figure 8.2

Smaller Authorities - Reasons why a PIR was issued

	16/17	17/18	19/20
Failure to produce an annual return (for 16/17) or an AGAR (from 17/8 onwards)	16	22	23
Criteria submitted for exemption not all satisfied	N/A	0	8
Other	6	1	0
Total	22	23	31

The "other" category includes issues relating to governance, fraud, employment law, and non-compliance with VAT regulations.

[27] NAO Local Authority accounts: A guide to your rights https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Council-accounts-a-guide-to-your-rights.pdf

8.4.9 One authority had a PIR issued for all three years for failure to produce an annual return or annual governance and accountability returns (AGAR), and a further seven authorities had a PIR issued in two of the three years for the same reason. Failure to produce an AGAR from 2017/18 triggers a statutory recommendation to the authority from the external auditor that it should submit an approved AGAR within 42 days. A public interest report is then issued if the authority fails to do so.

8.4.10 Out of the six PIRs issued in 16/17 that were *not* due to a failure to produce an annual return, four of them related to work carried out by auditors in response to objections raised by a local elector. In one authority's case, it received objections on a multitude of issues with one issue (ineffective internal audit and other governance failings) receiving a number of objections.

8.4.11 If a smaller authority chooses not to engage with external audit recommendations or PIRs, there is no mechanism, other than through local elections, to hold smaller authorities to account. The LGSCO investigates complaints against larger local authorities, but this does not extend to Parish Councils. If MHCLG wishes to devolve more powers to smaller authorities or smaller authorities increase their spending considerably, MHCLG should consider further accountability arrangements for smaller authorities.

8.5 Financial Reporting in Smaller Authorities

8.5.1 Smaller authorities that are able to declare that they have had had no financial transactions in the year of account do not need to prepare accounts. Instead they can send a declaration that they are exempt to their auditor.

8.5.2 Smaller authorities that cannot declare themselves exempt have to prepare an Annual Governance and Accountability Return (AGAR). The AGAR which is freely available, is updated and produced by SAAA and approved by the SAAA board. The cost of its production is met by SAAA.

8.5.3 JPAG is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities, together with stakeholder partners representing MHCLG, the Department of Environment, Food and Rural Affairs, CIPFA, the NAO and a representative of the external audit firms appointed to smaller authorities.

8.5.4 The AGAR has a number of sections. In order these are:

a. Guidance notes on how to complete the template and what information needs to be published on the authority's website.
b. The Annual Internal Audit Report.
c. Section 1: The Governance Statement.
d. Section 2: The Accounting Statement, which is prepared on a receipts and payments basis.
e. The External Auditor Report and Certificate.

8.5.5 Each non-exempt smaller authority is required to complete parts b, c, and d of the AGAR and send it together with a bank reconciliation and an explanation of any variances between the budget and the outturn to the auditor. The template itself is quite short, but fairly busy, with detailed guidance included in each section.

8.5.6 Under the Accounts and Audit Regulations 2015, authorities must publish the following information on a publicly accessible website. Before 1 July, smaller authorities must publish:

- Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited;
- Section 1 - Annual Governance Statement, approved and signed; and
- Section 2 - Accounting Statements, approved and signed.

8.5.7 Not later than 30 September, smaller authorities must publish:

- Notice of conclusion of the audit;
- The External Auditor Report and Certificate: and
- Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.

9. Conclusions

9.1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of The Review

9.2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:

- providing clarity of purpose in local audit;
- giving emphasis to performance and accountability in local audit framework;
- maintaining and improving the stability of the local audit market;
- reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
- improving and strengthening the governance arrangements underpinning effective local audit;
- developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
- engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
- providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

9.3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

9.4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.

9.5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.

9.6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.

9.7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.

9.8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to 'turnover' thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.

9.9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.

9.10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local authority's financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO's annual Section 25 report of the budget. This could be further assisted by a review of the local authority's observance of CIPFA's Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor's work is genuinely transparent and accessible to local taxpayers an Auditor's Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

9.11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.

9.12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.

9.13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

10. List of Annexes

1. What are auditors required to do?
2. Roles and duties of Statutory Officers
3. Functions of the Office of Local Audit and Regulation
4. Illustrative Simplified Financial Statements
    a. District Council
    b. Fire and Rescue Authority
    c. Police and Crime Commissioner
    d. Unitary Authority
5. Potential impact of recommendations made by other reviews of audit
6. Approach of other state auditors to performance audit
7. Terms of Reference
8. Call for Views respondents

Appendix – Glossary of Key Terms, Acronyms and Abbreviations

ACCA – Association of Chartered Certified Accountants
Professional accounting body offering the Chartered Certified Accountant qualification

Accounting Officer
Normally the Permanent Secretary of a government department who is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources

Accounts and Audit Regulations 2015
Statutory Instrument that sets the deadlines for publishing unaudited local authority accounts for inspection and for publishing audited local authority accounts; requires local authorities to have an internal audit; and details the information that must be included in local authority annual report and accounts.

Adverse Opinion
An audit opinion - a conclusion that an authority's accounts are not true and fair/proper arrangements to secure the economy, effectiveness and efficiency of service delivery are not in place.

AGN – Auditor Guidance Notes
Guidance produced by the National Audit Office to support external auditors in their work and to facilitate consistency of approach between auditors of the same types of entity. These have the same status as the NAO Audit Code of Practice

ALB – Arm's Length Body
A body which has a role in the processes of national government but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Annual Audit Letter – also known as Audit Completion Report or ISA260 Report
The annual audit letter summarises key findings from the auditor's yearly audit; often includes management recommendations.

AQR – Audit Quality Review team
The part of the Financial Reporting Council that monitors the quality of the audit work of statutory auditors and audit firms in the UK that audit Public Interest Entities (PIEs). Since 2018-19 AQR has been responsible for the quality assurance of larger local authority audits.

ARGA – Audit, Reporting and Governance Authority
A planned independent regulatory body to replace the Financial Reporting Council. This was recommended by Sir John Kingman in his review of the Financial Reporting Council and supported by Sir Donald Brydon in his review into the quality and effectiveness of audit

Audit Commission
A now disbanded independent public corporation that had the responsibility for appointing auditors to a range of local public bodies in England. They set the standards for auditors and had oversight their work

Audit Scotland
The body responsible for supporting the Auditor General for Scotland in providing independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

BEIS – Department for Business, Energy & Industrial Strategy
Has policy responsibility for statutory audit, including taking forward the recommendations made by the Kingman and Brydon reviews.

Best Value
A local authority should make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Under the Duty of best value, therefore, authorities should consider overall value, including economic, environmental and social value, when reviewing service provision. Central government may use its best value powers to intervene in a local authority in exceptional cases where that best value duty has not been met.

Brydon Review
Independent Review into the Quality and Effectiveness of PIE Audits led by Sir Donald Brydon (published December 2019).

C&AG – Comptroller and Auditor General
An independent officer of the House of Commons who leads and is supported by the National Audit Office. Has the statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Responsible for preparing, maintaining, and developing the Code of Audit Practice for local authority auditors (the Audit Code).

Capital Finance and Accounting Regulations 2003 (as amended)
Regulations governing local authority capital finance and investment. Include the statutory overrides to GAAP that local authorities in England are required to apply.

Category 1 Authority
A relevant authority that either: (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations. All local authorities with income or expenditure of more than £6.5m are Category 1 authorities. The Council of the Isles of Scilly and Shire Districts with income and expenditure of less than £6.5m are also Category 1 authorities.

Category 2 Authority
A relevant authority that is a smaller authority (that is a parish council, parish meeting or internal drainage board) and has annual income and expenditure of less than £6.5m

CFO – Local Authority Chief Financial Officer / Head of Finance (also referred to as the S151 Officer)
A local authority officer, who has statutory responsibility for the proper conduct of that local authority's financial affairs.

CIAA – Chartered Institute of Internal Auditors
A representative body of internal auditors

CIPFA – Chartered Institute of Public Finance and Accountancy
A professional public finance accountancy body. Maintains four statutory codes that local authorities are required to 'have regard to'.

Clean opinion – also known as an "unqualified opinion"
An audit opinion – that the accounts are true and fair, free from material misstatement and have been properly prepared in accordance with the applicable accounting framework.

Code of Audit Practice
The "Audit Code" sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. The Comptroller and Auditor General is responsible for the preparation, publication and maintenance of the Code of Audit Practice.

Code of Practice on Local Authority Accounting
Public sector organisations responsible for locally delivered services are required by legislation to prepare their accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

CIPFA/LASAAC
A partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). Responsible for preparing, maintaining, developing and issuing the Accounting Code.

CMA – Competition and Markets Authority
A non-ministerial government department responsible for strengthening business competition and preventing and reducing anti-competitive activities

CMA Markets Study - Audit
The CMA carried out a study into the statutory audit market, to see if the market is working as well as it should. (published October 2018)

County councils – also known as Shire Counties
Upper tier authority responsible for services across the whole of a county such as: education; transport; planning; social care.

CQC – Care Quality Commission
An executive non-departmental public body responsible for monitoring, inspecting and regulating health and social care services.

DHSC – Department for Health and Social Care

District Audit Service
Set up in 1844, and originally part of HMT, was the Audit Commission's in-house audit practice until all local authority audits were outsourced for the 2012-13 financial year. Most staff working in the DAS at that time transferred to the private sector accountancy firms who took on responsibility for local authority audits.

District Council – also known as Shire District
Lower tier authority, responsible for services over a smaller area than county councils such as: rubbish collection; recycling; Council Tax collections; housing; planning applications

EFA - Expenditure and Funding Analysis
Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES

Except for opinion
An audit opinion - a conclusion that in all material respects the accounts are true and fair/proper arrangements are in place except for the matters detailed in the audit certificate and report OR a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether one or more material items in the accounts are true and fair/a material element of proper arrangements are in place

Financial Reporting
Financial reporting uses financial statements to disclose financial data that indicates the financial health of an entity over during a specific period of time. These reports provide information to people who wish to understand the performance of an entity

FRA – Fire and Rescue Authority
A supervisory body which ensures that a local fire service performs efficiently and in the best interest of the public and community it serves. FRAs can be part of a another type of local authority or can be stand-alone entities.

FRAB – Financial Reporting Advisory Board
The role of the board is to ensure that government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice as far as possible.

FRC - Financial Reporting Council
An independent regulatory body which regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. Currently transforming into a new body the Audit, Reporting and Governance Authority.

FReM - UK Central Government Financial Reporting Manual
The technical accounting guide to the preparation of financial statements, prepared after consultation with the Financial Reporting Advisory Board. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland

General Fund
The main revenue account that local authorities are required to maintain. The majority of income goes into the general fund account and most service expenditure is funded from it.

General Power of Competence
*Introduced by the Localism Act 2011 and took effect in February 2012. In simple terms, it gives councils the **power** to do anything an individual can do provided it is not prohibited by other legislation. Most wholly-owned local authority companies are set up under the General Power of Competence.*

Generally Accepted Accounting Practice/Principles (GAAP)
A collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced "gap." GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Going Concern Test
An element of the audit report certifying that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. Going concern reporting is very specifically about ensuring that the correct accounting basis is being used, not about confirming whether an authority is running out of resources.

Greater London Authority (GLA)
A type of local authority. The GLA regional authority, with powers over transport, policing, economic development, and fire and emergency planning in Greater London. The GLA is unique in the British devolved and local government system, in terms of structure elections and selection of powers.

Head of Paid Service
The Head of Paid Service has statutory responsibility for the management and coordination of the employees appointed by the Council. Although the roles are separate, frequently the Chief Executive or Managing Director of a local authority.

HMICFRS - Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
Inspectorate responsible for independently assessing the effectiveness and efficiency of police forces and fire & rescue services.

HMT – Her Majesty's Treasury

HOFMCP - Home Office Financial Management Code of Practice
The financial management code of practice provides clarity around the financial governance arrangements within policing

Housing Revenue Account
Legislation prohibits social housing expenditure from being subsidised by general fund expenditure and vice versa. Therefore, local authorities with social housing stock are required to maintain a separate "housing revenue account", which must be self-financing.

ICAEW - Institute of Chartered Accountants of England and Wales
A professional membership organisation that promotes, develops and supports chartered accountants and students in the UK, Wales and globally. Responsible for maintaining the register of firms and KAPs qualified to sign off audits of local authority accounts.

ICAS - Institute of Chartered Accountants of Scotland
A professional membership organisation that promotes, develops and supports chartered accountants and students in Scotland.

IFRS – International Financial Reporting Standard (set by the International Accounting Standards Board)
A public interest organisation which has developed and maintains a single set of globally accepted accounting standards.

Internal Drainage Board
A type of local authority which is established in areas of special drainage need in England and Wales with permissive powers to undertake work to secure clean water drainage and water level management within drainage districts. The area of an IDB is not determined by county or metropolitan council boundaries, but by water catchment areas within a given region.

ISA - International Standards on Auditing
Standards for audits of financial statements, which include objectives for the auditor, together with requirements and related application and other explanatory material. ISAs(UK) are issued by the FRC.

KAP – Key Audit Partner
A senior member of staff within an audit firm who is registered to sign off a set of local authority accounts. Does not need to be a partner in the firm.

Kingman Review
Independent Review of the Financial Reporting Council led by Sir John Kingman (published December 2018). Included commentary and recommendations for local audit.

KPI – Key Performance Indicator
A performance measurement which helps evaluate the success of an organisation or of a particular activity in which it engages.

LGA – Local Government Association
The national membership body for local authorities.

LGSCO – Local Government and Social Care Ombudsman
A service that investigates complaints from the public about councils, registered adult social care providers and other select bodies providing public services in England

Limitation in Scope
An audit opinion - a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether the accounts are true and fair and/or proper arrangements are in place to deliver economy, efficiency and effective services.

Local Audit and Accountability Act 2014
Abolished the Audit Commission and established the current arrangements for the audit and accountability of the local public audit system

Local Audit Delivery Board
Consultative board chaired by MHCLG, which compromises of representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the local authority accounting framework. Meetings are held in private and it has no formal powers or remit.

Local Government Act 2000
An Act to make provision with respect to the functions and procedures of local authorities

London Borough
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through the Greater London Authority.

Mayoral Combined Authority
A type of local authority created in areas where they are considered likely to improve transport, economic development and regeneration. MCAs are led by metro mayors who make decisions about policy and spending in conjunction with council leaders from each constituent council. Both the metro mayor and each of the council leaders have a single vote and must approve or oppose decisions.

Metropolitan borough – also known as Metropolitan District
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through 'joint authorities

MHCLG – Ministry of Housing, Communities and Local Government
The government department with policy responsibility for the local audit framework.

MIRS - Movement in Reserves Statement
Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes

Monitoring Officer
A local government officer with three main roles: to report on matters he or she believes are, or are likely to be, illegal or amount to maladministration; to be responsible for matters relating to the conduct of councillors and officers; and. to be responsible for the operation of the council's constitution.

NAO – National Audit Office
The UK's independent public spending watchdog. The NAO support Parliament in holding government to account and they work to improve public services through their audits. They are led by the Comptroller and Auditor General

NHSI(E) – NHS England and NHS Improvement
The umbrella body for the NHS in England. From 1 April 2019, NHS England and NHS Improvement have worked together as a new single organisation to better support the NHS to deliver improved care for patients.

Ofsted - Office for Standards in Education
Office for Standards in Education, Children's Services and Skills. Inspect services providing education and skills for learners of all ages. Also inspects and regulate services that care for children and young people including those delivered by local authorities.

Parish Council – can also be known as community councils
A civil local authority found in England and is the lowest tier of local government. They are elected corporate bodies, have variable tax raising powers. Responsibilities of parish council's vary considerably but can include allotments, bus shelters, burials and maintenance of common land and rights of way.

Parish Meeting
A meeting to which all the electors in a civil parish are entitled to attend. In some cases, where a parish or group of parishes has fewer than 200 electors, the parish meeting can take on the role of a parish council, with statutory powers, and electing a chairman and clerk to act on the meeting's behalf.

PCC – Police and Crime Commissioner
An elected official in England and Wales charged with securing efficient and effective policing of a police area. Commissioners replaced the now-abolished police authorities.

PIE – Public Interest Entity
A listed company or an entity with listed debt. Under EU Law, entities are designated by Member States and are usually defined as having undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

PIR – Public Interest Report
When an Auditor considers there to be a matter that is sufficiently important enough to be publicly brought to the notice of the council or the public they can make a report in the public interest.

PSAA - Public Sector Audit Appointments Ltd
Public Sector Audit Appointments is a company limited by guarantee wholly owned by the Local Government Association. PSAA are specified as an appointing person for local authority under provisions of the Local Audit and Accountability Act 2014. The functions of PSAA are specified in statute.

Qualified Audit Opinion
When an external auditor concludes that financial records have not been maintained in accordance with the Generally Accepted Accounting Principles. There are three types of qualified opinion; an except for; adverse; and limitation in scope opinion

SAAA - Smaller Authorities' Audit Appointments Ltd
The sector-led limited company appointed as the specified person to procure and appoint external auditors to smaller authorities and to manage the ongoing smaller authority audit contracts.

SERCoP - Service Reporting Code of Practice
A statutory code that sets out the proper practices with regard to consistent financial reporting for services; all local authorities in the UK are expected to adopt its mandatory requirements and recommendations and use them when reporting statistical data to central government.

Smaller Authorities - parish, community and town councils and internal drainage boards
These operate at a level below district and borough councils and in some cases, unitary authorities. They sometimes deliver additional services on behalf of the district council.

SOLACE – Society of Local Authority Chief Executives
Members' network for local government and public sector professionals throughout the UK

TUPE - Transfer of Undertakings (Protection of Employment)
Regulations to protect employees if the business in which they are employed changes hands. The two types of transfer protected by TUPE regulations are business transfer and service provision changes

Unitary Authorities
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide.

Unqualified Audit Opinion
When an external auditor concludes that the financial statements of an entity present fairly its affairs in all material aspects

VfM Conclusion – Value for Money Conclusion
A requirement that external auditors undertake sufficient work to be able to satisfy themselves as to whether the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period

Welsh Audit Office
The Wales Audit Office provides staff and other resources for the Auditor General's work, and monitors and advises the Auditor General for Wales.

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Appendix 2

PSAA Response to the Redmond Report

Dear Mr Savage,

As I am sure you are already aware, Sir Tony Redmond's report reviewing financial reporting and auditing in local government bodies was published on 8 September. You may also have been able to attend our Local Audit Quality Forum webinar on 1 October at which Sir Tony outlined his key findings and recommendations and took questions from an audience of 200 delegates. If you were unable to make the webinar or you want to hear it again, a recording of the session is available on our website.

Our overriding view of the report is that it helpfully draws attention to many of the significant challenges and the unprecedented turbulence which exist in the current local audit system. The term "perfect storm" is often over-used, but reflecting on the events of the past two years, it feels like a very fitting description in this case. The audit world has had a torrid time and has had to adapt to much more challenging regulatory requirements, significant recruitment and retention difficulties, and now, of course, Covid-19.

As the sector-led body responsible for the vast majority of auditor appointments in local government bodies, our perspective is that we want to help fix the local audit system so that it is viable and robust for the future. In our view, it is helpful that Sir Tony has recognised that at present local government audit is under-resourced and under-valued, and is not having sufficient impact. We cannot resolve these problems single-handedly but by working with partners across the system we believe we can make an important contribution to helping to find the right solutions.

A number of Sir Tony's recommendations mirror our own response to his call for evidence. We are encouraged that he:

- Endorses the need for clear system leadership to help resolve and mitigate the current framework's fragmentation and complexity, and to clarify and assign responsibility for ongoing issues, such as appropriate regulation, and for planning and developing improvements to the system going forward;
- Recognises that bringing the statutory publishing date forward to 31 July is not sustainable and that audit timetables need to be considered holistically across the public sector;
- Acknowledges that the local public audit market is itself fragile, vulnerable and lacking resilience as a result of the limited number of suppliers and the wider pressures on those firms, and that further investment in public audit is needed to ensure that there are sufficient auditors with the appropriate knowledge and skills to deliver the audit service that public bodies and the public at large have the right to expect;
- Recognises that current fee levels are low compared to other sectors (driven down by suppliers bidding keenly to win contracts in the very different audit environment in 2017);
- Welcomes the NAO's new Code of Audit Practice and the greater and more informative insights which the new VFM arrangements commentary has the potential to provide;
- Recognises the limitations which the Appointing Person Regulations place on fee setting arrangements;
- Calls for improvement in the clarity and relevance of local audit reporting; and
- Recognises the importance of strengthening capacity and skills in depth throughout the financial reporting supply chain.

Perhaps inevitably in a long report that tackles such a complex range of problems, PSAA has a different perspective in some areas. In terms of our role, we provide robust challenge to all fee variation proposals, considering each one in line with our responsibilities. Our website also sets out our methodology for monitoring contracts, overseeing independence matters and dealing with complaints. Our annual report on professional standards, contractual requirements and relationship management and on overall audit quality will be published later in the year, following the results of the 2018/19 professional regulatory audit reviews which are currently awaited.

Sir Tony's central recommendation is the creation of the Office of Local Audit Regulation (OLAR) that brings together within a single entity a wide range of functions. These include procurement, regulation and the new system leader role. Whilst we can understand some of the arguments for a structural reorganisation, we are apprehensive about the time which it may take to legislate and bring a new body fully on stream. In our view part of the work to test this proposal must be to confirm whether it can be delivered as a timely response to the current urgent challenges.

The Redmond Report focuses on the bodies covered by the local government accounting code, but some of OLAR's proposed duties would also logically cover audit in the NHS. It will therefore be crucial for the Government's response to clarify how OLAR would relate to local audit in the NHS, and with the awaited responses to the Kingman, Competition and Markets Authority and Brydon Reports.

Sir Tony has called for increased audit fees as the first step to achieving sustainable local audit. To an extent additional fees are generated through PSAA's fee variations process though we acknowledge that the system for claiming and

approving variations takes time and makes demands on both auditors and audited bodies. In part this is a reflection of the requirements of the relevant regulations. However, it also reflects the fact that the system was designed when fees were higher, the market was more stable, and fee variation claims were far less common. We have recently completed a project evaluating ways to evolve the fee variation process to make it more straightforward for all parties, and aim to publish proposals for consultation in the near future.

To achieve audit sustainability in the long term there also needs to be a consensus about where the additional resources will come from, and how more money in the system will enrich the value that audit adds by attracting and developing skilled people. We also need to address the challenge of ensuring that audit is more highly valued by local bodies - hopefully the new Audit Code, and in particular the new VFM arrangements commentary, will be a major step in the right direction.

Sir Tony has emphasised that not everything in his report requires legislation. PSAA is keen to continue to work with others in the sector on developing solutions and resolving some of the urgent challenges highlighted so that progress can be made as rapidly as possible. PSAA has already published reports with detailed evidence of the fragility of the audit supply market and continues to regard this as the critical risk to be addressed.

We look forward to continuing to hear the views of audited bodies and to ensuring that your frontline experiences are given appropriate weight in the work to develop a more stable local audit system.

Yours sincerely

Steve Freer, Chair and Tony Crawley, Chief Executive
Public Sector Audit Appointments Limited

EAST SUSSEX FIRE AUTHORITY

Meeting	Scrutiny and Audit Panel
Date	12 November 2020
Title of Report	2020/21 Second Quarter Corporate Risk Register Review
By	Assistant Director Resources/Treasurer
Lead Officer	Parmjeet Jassal, Interim Finance Manager

Background Papers	Scrutiny and Audit Panel 23 July 2020 - 2020/21 First Quarter Corporate Risk Register Review

Appendices	Appendix 1 RAID Log Scoring Matrix Appendix 2 Corporate Risk Register and Mitigation Plans

Implications

CORPORATE RISK	✓	**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL		**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT	**To report on the latest quarterly review of Corporate Risk**

EXECUTIVE SUMMARY

This report discusses the Second quarter position. It details the business risks identified and how they have or are being mitigated.

Risk R18 Uncertainty About The UK's Transition From The European Union (EU) And Its Short Term Impacts is re-established on the Corporate Risk Register.

Risks are scored against a 4x4 scoring matrix as shown in Appendix 1.

The review of corporate risks is an ongoing process and reports are presented on a quarterly basis. The updated position is shown in Appendix 2.

	Project Risks are reported through the Programme Management Office and escalated to the Corporate Risk Register when relevant.
RECOMMENDATION	Panel is recommended to: a) Note the updated Q2 Corporate Risk Register including the re-establishment of Risk R18; and b) Consider whether any further amendment to the risk register is required.

1. INTRODUCTION

1.1 This report brings the second quarter Corporate Risk Management Mitigation Plan. Corporate business risks are considered by SLT quarterly and reported to Scrutiny and Audit Panel for consideration.

2. RE ESTABLISHMENT OF RISK

2.1 Re-establishment of Risk R18 - Uncertainty about the UK's transition from the European Union (EU) and its short term impacts.

2.1.1 At the Scrutiny and Audit Panel meeting held on 30 January 2020, Members agreed with the reduced scoring and the Panel noted that there was no immediate risk to the Authority and agreed for R12 "UK's Exit from the European Union (EU)" to be removed from the Corporate Risk Register.

2.1.2 Due to concerns regarding the UK's move into a period of extended business negotiations following its' transition from the EU and continued monitoring by the Assistant Chief Fire Officer (ACFO), the risk is re-established on the Corporate Risk Register. Gold Group is meeting and reviewing the implications of the NFCC guidance.

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CORPORATE RISK REGISTER

Scoring for all Corporate Risk and Project RAID Log

Impact / Likelihood		Moderate (1)	Significant (2)	Serious (3)	Critical (4)
Certain/High (4)		Tolerable (4)	Moderate (8)	Substantial (12)	Intolerable (16)
Very Likely (3)		Tolerable (3)	Moderate (6)	Moderate (9)	Substantial (12)
Low (2)		Tolerable (2)	Tolerable (4)	Moderate (6)	Moderate (8)
Unlikely (1)		Tolerable (1)	Tolerable (2)	Tolerable (3)	Tolerable (4)

Corporate Risk and Project Raid Log Scoring Matrix

Impact		Moderate	Significant	Serious	Critical
Score		1	2	3	4
Financial		≤ £10000	≤ £100,000	≤ £500,000	≤ £1 m +
Reputation		Damage limitation	Adverse Publicity	Poor Reputation	Complete loss of public confidence
Service Delivery		would not restrict or service delivery	Could restrict service delivery or restrict delivery of an ESFRS Aim	Could stop service delivery or unable to delivery an ESFRS Aim	Would affect service delivery to our communities

Likelihood		Unlikely	Low	Very Likely	Certain/High
Score		1	2	3	4
Frequency		One case reported in the past 5 years, may re-occur if only limited control measures are not applied and continued monitoring. (0-24% probability)	One or two cases in the past 2 - 5 years or may re occur if not all control measures are not applied within the next 6 months and continue to monitor. (25-49% probability)	One or two cases in past 2 years or expected to happen if controls measures are slow being applied, and failure to monitor progress. (50-74% probability)	One or more cases in past 2 years. Failure to take immediate action could impact on service delivery or safety of personnel/ community. (75-100% probability)

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Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
2 Health & Safety non- compliance	• Policy and practices not effective • Policies not followed • Inconsistent implementation • H&S approach is not effectively targeting the highest risk areas • Lack of proactive / preventative measures to reduce likelihood • Specific issues regarding Face fit testing and Management of Contractors	• Training programmes in place • Policies in place • Appropriate systems exist • Changes to the management and staffing structure • Governance for Health, Safety & Wellbeing in place • Revised estates policy for management of contractors • Secondment of individual into Facilities Management (FM) role to deliver improvements in processes for estates / management of contractors for 12 months • H&S peer review and implementations of findings 5 year audit plan • Acceleration of "facefit" programme for respirators using external contractor •	Impact = 4 Likelihood = 2 Score = 8 Moderate	• Health and Safety (H&S) policy frame work review including the implementation of a new H&S management system planned For implementation in April 2021Continuing to finalise legal regulations for RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reports • Developing the H&S legal register • Implement the 3 year action plan drawn together following the Regional H&S audit undertaken in July 2019 with 1st year overview being presented to Oct 2020 HSWC	March 2021	AD People Services

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
3 Future financial viability	• Reducing funding stream (uncertainty) • Failure to identify and deliver savings • Difficult to predict future needs / resources required • Changes in legislation increasing burden • Impact of Covid 19	• 2020/21 budget agreed • Medium Term Finance Plan (MTFP) updates and reporting • Efficiency Strategy agreed and being progressed • Business Rates Pool re-established for 2020/21 • Continued monitoring of BRR proposals. • Delivery of savings monitored and reported to SLT and members • Resource Planning meeting to monitor operational establishment • Establishment and use of general and earmarked reserves to manage financial risk • Collaboration through East Sussex Finance Officers Association (ESFOA) to protect shared income streams e.g. Council Tax and Business Rates • "Star Chamber" budget scrutiny as part of the budget setting process • Covid 19 grant received which is expected to cover short term impacts of Covid 19 crisis • Initial high level assessment of potential financial cost of McCloud / Sargeant pension remedy • High level review of 2020/21 budget complete and reported to SLT (June) and P&R Panel (July) which identifies short and medium term impacts of Covid 19 and other financial pressures •	Impact = 2 Likelihood = 3 Score = 6 Moderate	• Further development of the actions set out in the Efficiency Strategy including development of an Income Strategy • Financial impact assessment of final IRMP proposals for September CFA • Lobbying in advance of Comprehensive Spending Review via National Fire Chiefs Council (NFCC) and local MPs • Work commencing with Budget Managers to identify potential in year savings • Early work on 2021/22 budget setting to identify potential approaches to addressing worst case scenario • Ongoing work through NFCC and ESFOA to monitor Covid 19 impacts on budget. • Developing plans for use of one off Protection Surge / Grenfell Infrastructure Grant	December 2020	AD Resources / Treasurer

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
5 Ability to meet developing legislative requirements evolving from central fire safety regulatory reviews	• Policy or legislative changes that are likely to arise from reviews and investigations • Unknown burdens on service delivery • Likely increased funding required • Knowledge and competence needed • Lack of capacity and capability • inability to adapt service delivery models	• Introduction of firefighter business safety • Competence framework for business safety officers • Business Safety Review to refresh structure to ensure appropriate capacity and contingency" • Continue to monitor developments from the Hackitt and Moore Bick reviews and potential legislative / regulatory changes • Assessment of the Grenfell Tower Phase 1 report and local ESFRS action plan in place • Monitoring of emerging Fire safety and Housing Bill • Fire Safety Government Consultation to strengthen the fire safety order and implement the Grenfell Tower Phase 1 report	Impact = 2 Likelihood = 3 Score = 6 Moderate	• Refresh and publish a new Protection Strategy to take account of the emerging issues. • Allocate ESFRS officers to national working groups to steer and understand the implications of the proposed national changes. • Sector is lobbying Govt. for additional funding for investment in protection services • Investment in mobile devices and supporting software to enable greater flexibility and mobile working to improve efficiency in work processes. • Deliver the Building Risk Review • Respond to fire safety consultation • Utilise the Government Protection Funding to identify improvement and support for existing protection team.	September 2020	ACFO
6 Effective workforce planning e.g. professional services	• Increasingly difficult to recruit into professional services • HR policy flexibility (grades/salaries) • Recruitment pool processes • Already lean workforce • Cognisant of the HMICFRS findings	• Introduction of Strategic Workforce planning to explore and introduce a market supplement process for professional service jobs (new action reads – review contracts and policy to embed this process. Continue to consider the wider recruitment market to assess salary points for specialist posts). • Recruitment and selection framework • Process Improvement Project to deliver efficiencies in roles and policy supporting lean workforce • Redesign current talent pool process at each operational level within the Organisation •	Impact = 2 Likelihood = 4 Score = 8 Moderate	• Locating resources with ITG to ensure employee data is General Data Protection Regulation (GDPR) compliant from a HR perspective. • Embed and reinforce workforce plan. • To explore and introduce a Benefits & Reward Framework and a market supplement process for professional service jobs • To re-engineer the recruitment and selection processes for professional services • To review salary structure with Hay – Scope to be completed in Oct 20	March 2021	AD People Services

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
8 Failure to mobilise effectively	• ESFC incident / significant system failure • Software providers unable to maintain support for system over longer term. • Loss of staff resulting in insufficient staff to maintain business as usual operational service	• Fall-back and business continuity arrangements designed, tested and operating (this includes fully functional secondary control at Maresfield. • Refreshed approach to attendance management. • Crewing degradation policy in place. • Resilience plan in place and being managed via weekly conference calls • WSFRS exit from joint control successfully achieved • Interim single service model developed for period Dec 2019 to March 2021 and now operating. New trainees course complete • Required additional funding identified and agreed for interim period • Authority has approved future transition to partnership with Surrey and West Sussex FRS through Project 21 • Phase One and Two Station end equipment completed.	Impact = 4 Likelihood = 2 Score = 8 Moderate	• Further audits and remediation plans for Mobile Data Terminals, Wi-Fi and Station End Equipment • Scenario planning for future options / outcomes underway including recruitment if necessary • Wi-Fi rollout delayed by Covid 19 now ready to recommence following proof of concept at Newhaven • Currently seeking extension of 4i vendor supporting after March 2021 • SEE Phase Three: Fire coders and Equipment delayed by Covid 19 now ready to recommence subject to risk assessment • Project 21 being mobilised and progress on track including effective joint working across partner FRS	September 2020	DCFO

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
9 Failure to manage the effects and impacts of a major loss of staff event	• Lack of engagement with unions / staff • Poor / ineffective consultation practices • Ineffective communications • Lack of business continuity • Pandemic Flu • Major travel disruption • Failure of National pay negotiation leading to action short of a strike	• Review outcomes of Retained Firefighters Union report • Introduction of the On-call action learning set • Establish a resilience group to refresh the resilience contingency plans and loss of staff protocols. • Establish regional loss of staff working group to share best practice and assist in contingency planning". • Introduce a revised Business Continuity Plan for major loss of staff • Deliver an Emergency Management Team (EMT) exercise to test the plans and response by the key staff within the continuity plans. • Close working with NFCC to determine local and regional resilience • New National Security Risk Assessment for industrial action prompting Sussex Resilience Forum support	Impact = 3 Likelihood = 3 Score = 9 Moderate	• Develop a continuity handbook for staff to assist in managing the early stages of a major loss of staff. • Engage with key staff to understand the landscape of staff availability during these events • Working with Sussex Resilience Forum (SRF) to assess threat and risk as part of community risk • Operational Response Review proposals for a revised core station policy and operational response plan. • Developing IRMP proposals for new flexible on-call firefighter contracts to improve resilience.	December 2020	ACFO
10 Inability to respond effectively to a cyber incident	• Lack of effective Business Continuity Plan (BCP)in place • Underestimation of risk likelihood • Poor policies and procedures • Human error • Lack of staff awareness (e.g. phishing) • Poor protection of systems leading to increased severity	• telent to progress the IT Risk Treatment Plan • IT Health Check now complete. The Information Security Management Forum meeting on a regular basis • Information Security e-learning in place • Integrated Aristi report now received and action report based on findings • External provider Aristi appointed to support development of new IS Framework • New suite of Information Security policies launched • Information Security Management Forum in place • Interim IT health checks commissioned through telent	Impact = 4 Likelihood = 2 Score = 8 Moderate	• Information Security Strategy to be developed • Working with Aristi to convert report into a new risk treatment plan: to include actions from IT health checks • Interim IT remediation plan being developed • Review of NRR and further national guidance being considered by Sussex Resilience Forum. ESFRS involved closely in this work and any relevant actions to be fed back to the service. • Further IT Healthchecks due November 2021	September 2020	DCFO

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
11 Failure to deliver key corporate projects	• Lack of adherence to governance processes • Lack of experienced staff managing projects • Inability to recruit to vacant posts in the Programme Management Office (PMO) • Over optimistic delivery plans	• Assignment of programme management office • Set up of the PMO – team, processes, standards, PMO Manual • Set up of Projects Tool Kit Intranet pages including templates, guidance and information to project managers and all staff involved in projects. • Portfolio capture in place and rationalisation of clusters and sub clusters of projects. • Set up of monthly reporting of projects into the PMO and quarterly / yearly PMO reporting to SLT. • Strategic Change Board in place • Key projects managed directly by the PMO (FireWatch, CRM, Business Intelligence, Respiratory Protective Equipment, ESMCP). • Project management now in place for delivery of fleet and engineering projects • Dependencies analysis and risks of extant project now complete • New PMO structure, terms of reference and funding agreed by SLT to meet the business need. • Additional Estates project management capacity in place (Major Capital Projects Manager)	Impact = 3 Likelihood = 2 Score = 6 Moderate	• Further development of quarterly reporting. • Carrying out Projects health checks with PMs • Implement agreed actions from Internal Audit Report (reasonable assurance opinion)	September 2020	DCFO
13 Collaboration	• Collaboration fails to deliver desired outcomes • Resources required to support collaborative activities not justified by improvements in efficiency and / or effectiveness	• Collaboration Framework agreed and in place • Priorities agreed for 2018-21 • Regular tracking of collaboration activities through business performance system • Governance in place e.g. 4F and Integrated Transport Function (ITF) • Legal advice on formal collaboration agreements	Impact = 3 Likelihood = 2 Score = 6 Moderate	• Regular review of collaborative activities through SLT and Scrutiny and Audit Panel • Update report on the agreed collaborations (as outlined in the Collaboration Framework) to SLT in May 2020. • Full update report to SLT and the FA in January 21 to concentrate on efficiencies	March 2021	AD People Services

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
14 Security and safety of staff and visitors on ESFRS sites	• Damage to buildings and assets • Injury to Personnel • Service Delivery: Unable to deliver training and requalify personnel if interruption continues • Industrialisation of areas surrounding ESFRS premises perpetually halting operational practice on sites.	• Safety Measures implemented in affected areas of Service Training Centre (STC) when burning i.e. PPE, Cordons. • The use of Community Order prohibiting protagonist from attending Authority premises • Increased safety officers • Temporarily ceased some lay flat testing to Air Quality Testing • Independent Air Quality Testing Report • Meeting with Traveller Rep, ESCC Rep and Sussex Police to discuss concerns. • Review of whole site security in conjunction with Estates. • Traveller Community Engagement, education and information around work and function of STC. • Project long term review of live fire training facilities • Initial phase of security improvements at STC completed	Impact =3 Likelihood = 3 Score = 9 Moderate	• Business case being developed for a clean burn strategy due to go to Change Board in Oct 2020 •	December 2020	AD People Services
15 Workforce planning	• Response to the McCloud and Sargeant cases lowering potential retirement ages • Financial implications of reinstatement to old schemes • Loss of senior level experienced officers and staff earlier than expected • Failure to interpret rules or legislation correctly	• Access professional legal advice where necessary • FPS administration successfully transitioned to WYPF wef 1 April 2020 • Initial high level assessment of potential financial cost of McCloud / Sargeant pension remedy. •	Impact =3 Likelihood = 2 Score = 6 Moderate	• monitoring developments through LGA / NFCC / Home Office • liaising with our actuary to ensure liabilities are reflected in IAS19 reports • • issuing communications to staff to keep them informed	December 2020	AD People Services

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
16 Spread of infectious pandemic diseases	• Risk to workforce and service delivery over the spread of Covid – 19 (corona virus)	• SRF meet every week to review current issues • PHE are monitoring and assessing the risk to public health in the UK and providing guidance to emergency services • Guidance business service and operations on protocols for dealing with high consequence infectious diseases. • Organisational update of business continuity plans reviewed to ensure fit for purpose • EMT now established Covid 19 Working Group and supporting cells in place and local BC plans being reviewed. • Regular staff updates in both service brief and by email. • Monthly reporting of Covid 19 costs through NFCC to Home Office and MHCLG – Covid 19 grant received expected to address short term financial impacts • Access to test facilities for key workers • Established PPE supply chain and key organisational working practices to prevent infection/spread of virus within service. • Review of longer term impacts of mental health and well-being • Premises risk assessments for covid safe premises. • Weekly monitoring of Sussex health system and Covid data via Sussex Monitoring Group	Impact =3 Likelihood = 2 Score = 6 Moderate	• Public awareness communication plan has been shared by the Sussex Resilience Forum, but needs to be reviewed as past review date. • National PPE guidance to be released. • Additional Containment Areas and Fire Safety Regulations questions to be advised • ESFRS BC plans reviewed and tested against Reasonable Worst Case Scenario • SRF Pandemic Flu Plans updated and published • Weekly Common Operating Picture established by SRF • Local Outbreak Plans prepared and exercised •	December 2020	ACFO
17 Ageing workforce	• Increasing ageing workforce • Increasing number of age related injuries • Increase in injury recovery times having a cost to recovery • Increase into alternative specialist equipment causing further costs • Increased number of ill health retirements	• Trained personnel in manual handling training • Membership to Fire And Recuse Risk Group (FARRG) help discus ongoing issues with other services may have already dealt with including issues with National Resilience Equipment • Wellbeing strategy that is looking at supporting an ageing workforce • Service Fitness Advisor embedded into the Complex Case Mgt review meetings •	Impact =3 Likelihood = 2 Score = 6 Moderate	• Review of sufficient or appropriate training • Reviewing manual handling training via station assurance programme • 2021/22 we will be scoring compliance manual handling training policy • Complex Case Mgt Review meeting to review cases specifically to assist in addressing this issue •	December2020	AD People Services

Risk Title	Causes	Mitigations	Mitigated Risk Score	Actions	Review Date	Corporate Risk Owner
18 Uncertainty about the UK's transition from the EU and it's short term impacts	• Economic shock and impact on funding • Supply chain problems • Disruption around ports and port access routes • Civil unrest • Increased risk to vulnerable groups • Data warehousing located in EU stores	• Strategic & Tactical Coordinating Groups established and ESFRS decision log and concept of operations in place • Multi-agency table top exercise and risk review process established. • Engaged with Sussex Resilience Forum which is leading local multi-agency planning • Existing Business Continuity plans have been reviewed • Linking with work being carried out nationally through NFCC • Risk / impact assessment • Equality impact assessment prepared • Staff awareness and communications plan in place • Key staff training and workshops competed and necessary actions included within risk assessment • Member and Corporate briefing completed • Gold Group to continue to meet reviewing the readiness of the Service	Impact = 2 Likelihood = 2 Score = 4 Tolerable	• Considering financial risk impact as part of budget setting - • Continuing to monitor plans for EU transition on 30 December 2020 • D20 group launched and reviewed monthly • Gold Group continue to meet reviewing the readiness of the service • Relaunch of external emergency planning • Reviewing Business Continuity plans.	December 2020	ACFO

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EAST SUSSEX FIRE AUTHORITY

Meeting	Scrutiny and Audit Panel
Date	12 November 2020
Title of Report	Performance Report for Quarter 2 2020/21
By	Liz Ridley, Assistant Director – Planning & Improvement
Lead Officer	Sharon Milner, Planning & Intelligence Manager
Lead Member	Cllr John Barnes

Background Papers	None

Appendices	Appendix 1 – Quarter 2 report

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL		**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT **To present the second quarter and provisional year end results for 2020/21.**

EXECUTIVE SUMMARY

This report provides Scrutiny and Audit with a summary of service performance information for the 2nd quarter of 2020/21 and provisional year end results.

The report contains information against 21 indicators.

Additional information on sickness and ESFRS road traffic collision data is also contained in the report as requested by Members at previous meetings.

Due to the national pandemic, the Service has adapted new models of service delivery including telephone home safety visits and business safety audits. Direction of travel in these areas are not comparable therefore have not been included. Also additional indicators are presented for the Panels information.

RECOMMENDATION	The Scrutiny and Audit Panel is asked to: 1. Note the performance results for quarter 2 in Appendix 1. 2. Consider the performance results and remedial actions that have been taken in the Fire Authority's priority areas. 3. Note that work has begun to revise the Performance Assurance Framework and a report will be brought back for the Panels consideration at a later date. This will include a refresh of the indicators set.

1. INTRODUCTION

1.1 This report contains the quarter 2 performance indicator results for 21 performance indicators for 2020/21, compared with the results for the same period in 2019/20 where comparable.

1.2 Due to the limitations imposed by the COVID-19 restrictions ESFRS has had to find other ways of doing home safety visits, business safety audits and engagements. Hence the standard PIs do not reflect this additional work and the direction of travel has not been reported against these areas. Therefore this report includes all indicator results, but only shows the previous year comparison against 16 of the total 21.

1.3 The additional information about the numbers of telephone home safety visits and other business safety work are included in appendix 1 to show the level of extra work that has been undertaken. There is further information in the main body of this report covering a range of other activities that ESFRS community safety and business safety teams have been doing to support the local community during this time.

2. MAIN ISSUES

2.1 Nine of the 16 indicators that are reported against are showing an improvement in performance against the same quarter in the previous year; two indicators are reporting the same level of performance in both years and five are showing a decline.

2.2 Of those reporting a decline in performance; four indicators are reporting at least a 10% decline in performance against quarter 2 2019/20. These are:

(i) The number of accidental dwelling fires
(ii) The number of primary fires
(iii) The number of industrial and commercial fires
(iv) The percentage of AFA mobilised calls to properties covered by the RRO that were classified as a primary fire

3. PERFORMANCE PRIORITY AREAS

3.1 The Fire Authority priorities for 2019/20 as agreed by the Scrutiny and Audit Panel on 5 June 2019 remain unchanged as below:

1. Reducing accidental dwelling fires
2. Confining the fire to the room of origin
3. Reducing attendance at false alarm calls
4. Increasing the number of home safety visits to vulnerable members of our community
5. Reducing sickness
6. Increasing inspections in high risk premises
7. Numbers of home safety visits

3.2 This report provides a summary of work undertaken against the priority areas, where relevant.

3.3 **Reducing accidental dwelling fires**

3.3.1 In quarter 2 2020/21 ESFRS attended 125 accidental dwelling fires (ADFs), this is an increase of 25 against the same period in the previous year. The projected year end result in ADFs at this early stage shows a small decline in performance in this area with 462 against 453 in the previous year. The ADF working group continues to proactively engage with our communities and where spikes are seen in specific areas or station grounds detailed analysis is carried out to try and identify trends. There have also been a number of social media campaigns:

3.3.2 The next phase of 'Look While You Cook' is now underway. The segmented group being targeted is Mosaic Group J - lovers of everything technological. The audience will be predominantly targeted via social media, including Twitter/Facebook and YouTube advertising. The imagery will be based around gaming and tech games, with the use of 8-bit imagery to capture the imagination of this audience. Recently, the ADF Group has reported that there has been an increase of distraction cooking-related fires among this mosaic group and so this confirms that we are approaching the correct audience.

3.3.3 There have also been a number of press releases reflecting recently attended incidents, for example 'Hastings Flat Fire Prompts Warning to Keep Kitchen Safe'. This highlighted the dangers of distraction and cooking with fat. Safety messages were issued as part of this article. https://www.esfrs.org/news/2020-news/hastings-flat-fire-prompts-warning-to-keep-kitchen-safe/

3.3.4 Another press release was written around the importance of microwave safety following a fire in St Leonards-On-Sea. Tips were included about the correct way to use a microwave and to raise awareness that 'Microwaves Can Be A Fire Hazard'. https://www.esfrs.org/news/2020-news/microwaves-can-be-a-fire-hazard/

3.4 **Increasing the percentage of home safety visits that we complete with the more vulnerable members of our community**

3.4.1 We delivered 95.9% of our home safety visits to vulnerable people within our community by the end of quarter 2 2020/21, this is an increase against the previous year (92.2%). This is due to the fact that in the main home safety visits are only being undertaken face to face for the very vulnerable members of our community due to the COVID-19 restrictions.

3.5 **Reducing the number of absences of our employees due to sickness**

3.5.1 In quarter 2 2020/21 ESFRS lost 1.8 shifts per person to sickness. An element of this is due to COVID-19 and the fact that many employees are working from home and operational crews have changed their ways of working on station to minimise unnecessary contact and contamination. Also there has been a change in the way that COVID-19 symptom related illnesses are recorded, so currently these go under an 'other absence' code.

3.5.2 Figures 1, 2 and 3 contain information on whole-time, East Sussex fire control and support staff sickness split into long term, medium term and short term sickness respectively by quarter for the previous three years.

Figure 1 – Whole-time sickness

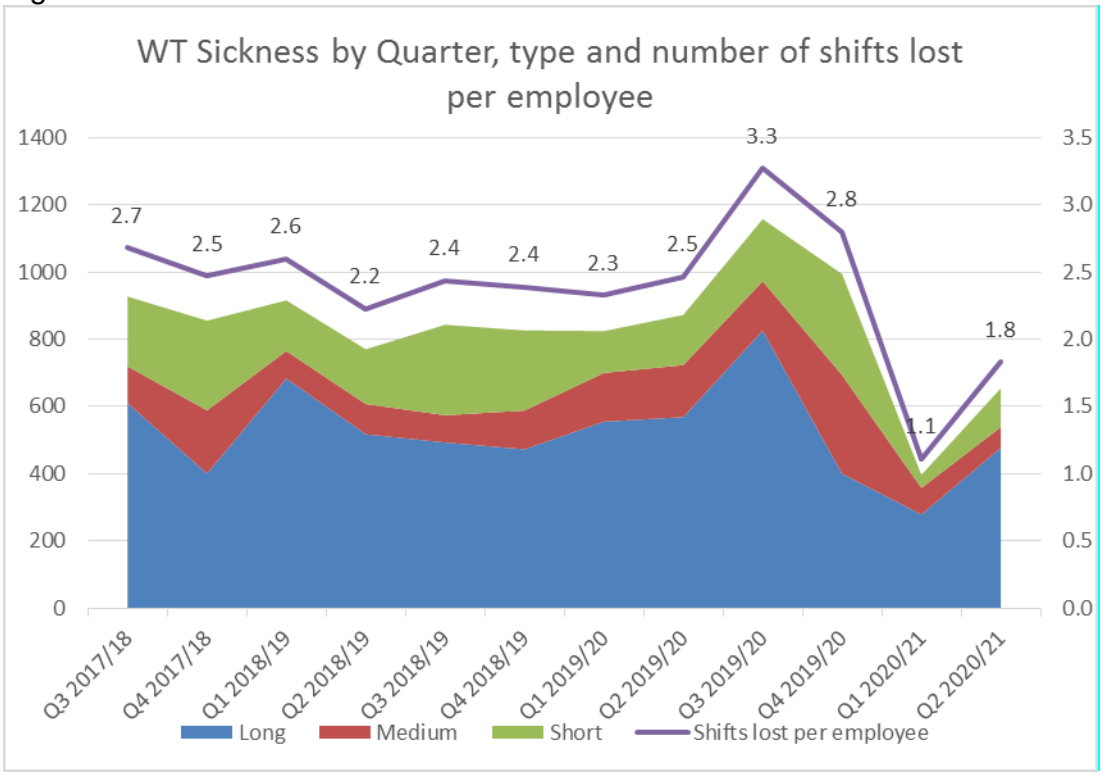


Figure 2 – East Sussex Fire Control Sickness

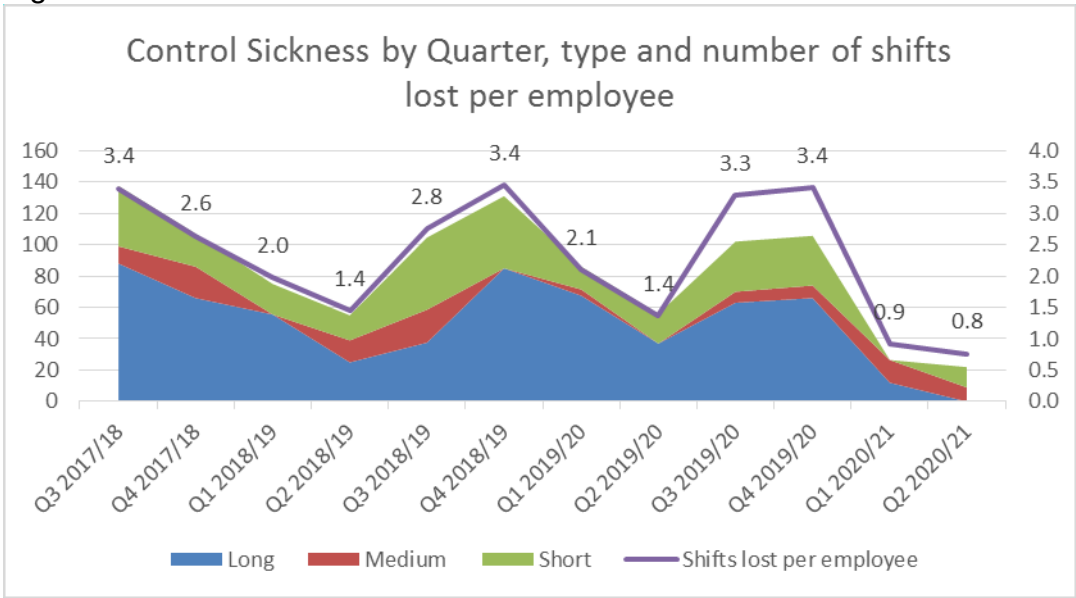
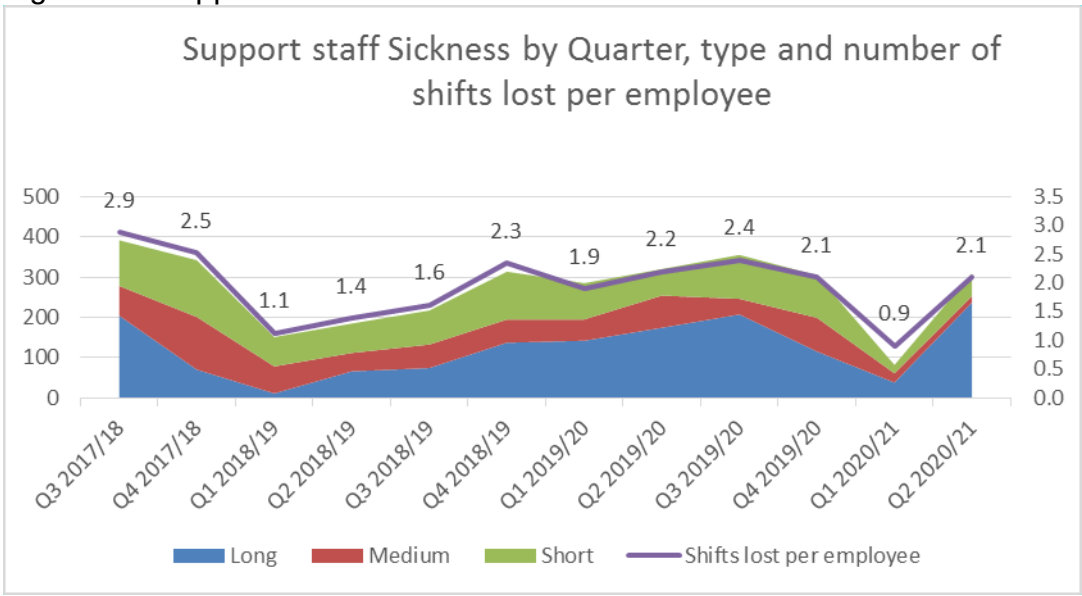


Figure 3 – Support Staff Sickness



3.6 Reducing false alarm calls from the base year 2009/10

3.6.1 False alarm calls attended reduced in quarter 2 2020/21 with a reduction against the base year of 38.8%, against 34.7% in the same quarter in the previous year. The projected year end result is showing a 40.5% reduction.

3.6.2 Again this shift in performance can be attributed to the COVID-19 lockdown, when the majority of businesses were closed for a long period of time.

3.7 Percentage of accidental fires confined to the room origin.

3.7.1 95.2% of ADFs were confined to room of origin at the end of quarter 2 2020/21, improvement decrease in performance against the previous year when the result was 94.0%.

3.8 Inspections of high risk premises completed

3.81 There has been a big decrease in the number of inspections of high risk premises due to the COVID-19 pandemic and national lockdown on the same quarter in the previous year with 50 audits being completed against 120 in the previous year. However the business safety team have been engaging with the business community in a number of other ways and have completed a further 608 interactions, involving building regulation work, planning work and other fire safety activities.

Table 1 below shows the breakdown of the other interactions that were completed during quarter 2 2020/21. The majority of these were undertaken over the telephone.

Table 1 Breakdown of Business safety interactions for quarter 2 2020/21

Interaction	Total
Building Regulations	135
Housing	9
Licensing	57
Marriage Act	6
Other Consultation	2
Other FS Activity	362
Planning	37
Grand Total	**608**

Therefore although the number of actual face to face audits and business safety visits completed will be below this specific target, the business safety teams and operational crews will have completed a higher number of 'other fire safety' interactions.

3.9 Numbers of Home Safety Visits completed

39.1 In the second quarter of 2020/21, 1,476 home safety visits were completed and closed down on the system. Obviously this is due to the Community Safety teams and operational crews not being able to undertake home safety visits in the normal manner due to the ongoing COVID-19 pandemic. These are currently being done over the phone and the community safety team are also offering a vulnerable call scheme which includes a befriending service, arranging referrals to other agencies for assistance with shopping and GP assistance for example. In quarter two 2020/21 1,798 of these calls were made. This work was also highlighted in a recent press release entitled 'Thousands of Elderly and Vulnerable Helped During Covid-19'. https://www.esfrs.org/news/2020-news/thousands-of-elderly-and-vulnerable-residents-helped-during-covid-19/

3.9.2 Table 2 details the range of community safety work that the team have been either on the telephone or face to face.

Table 2 Breakdown of community safety interactions during quarter 2 2020/21

Over all total (July to September 2020) HSV Telephone Assessments/ Faulty Alarm/ Interactions	
Total No of Enhanced HSV Telephone Assessments	41
Total HSV Telephone Assessments	688
Total HSV Telephone Assessments (Crews)	703
Faulty Alarms (gone into the properties)	54
Urgent Smoke alarms (gone into properties)	67
Urgent Specialist alarms (gone into properties)	36
Blanking Plates (gone into properties)	11
Bedding (drop off)	9
Lap blankets (drop off)	10
CO Alarm (posted/ drop off)	94
Smoke Alarm (posted/ drop off)	299
No of Info Packs sent (email)	41
No of Info Packs sent (posted)	688
Total	2741

During the current COVID-19 pandemic the Community safety team also set up a vulnerable call scheme to provide additional support for the local community table 3 shows the breakdown of the calls and any additional support that was required from the befriending calls

Table 3 Breakdown of the befriending calls made to vulnerable members of the community during quarter 2 2020/21

Vulnerable Call Scheme July - September 2020	Total
Number of calls made	418
Requires a befriending call	3
Referred to other agencies for help with shopping	0
Referrals made for HSV including Faulty Alarms	58
Required GP	0

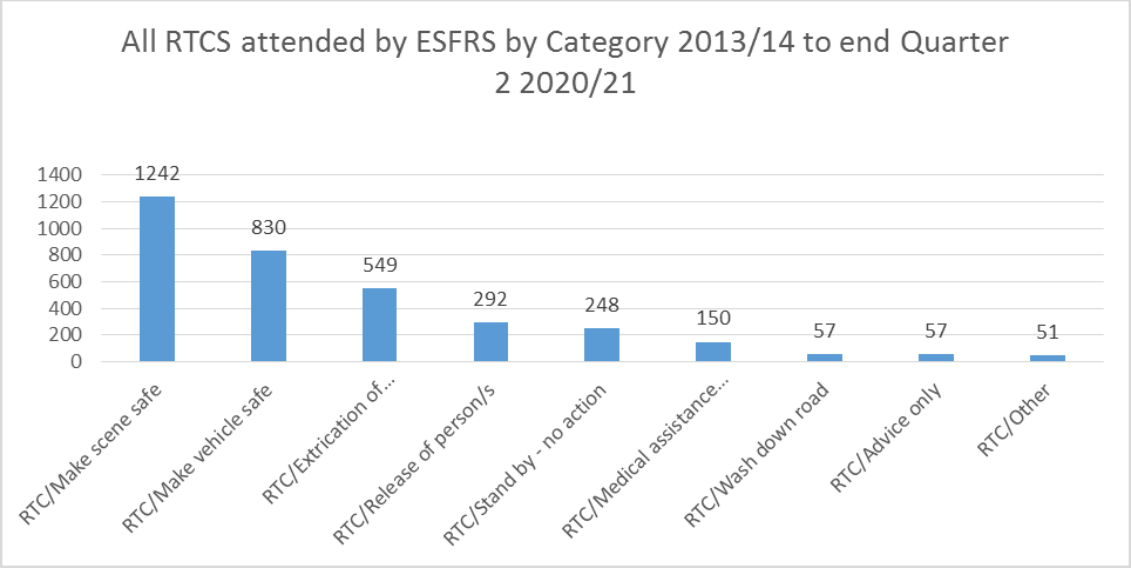
4. ROAD TRAFFIC COLLISON DATA

4.1 The following section contains information from the Sussex Safer Roads Partnership (SSRP) and internal data. The data from the SSRP is reported a year behind so the figures are for 2019/20 only. ESFRS attend approximately 18% of RTCs attended by Sussex Police. Sussex Police only report RTCs where a casualty is involved, whereas ESFRS RTCs include 'Making the scene safe' and 'Making the vehicle safe' for example. As can be seen from the table 4 there is a drop in the total number of RTCs across East Sussex as attended by Sussex Police, but an increase to 2018/19, followed by a decrease and projected decrease in the next two years.

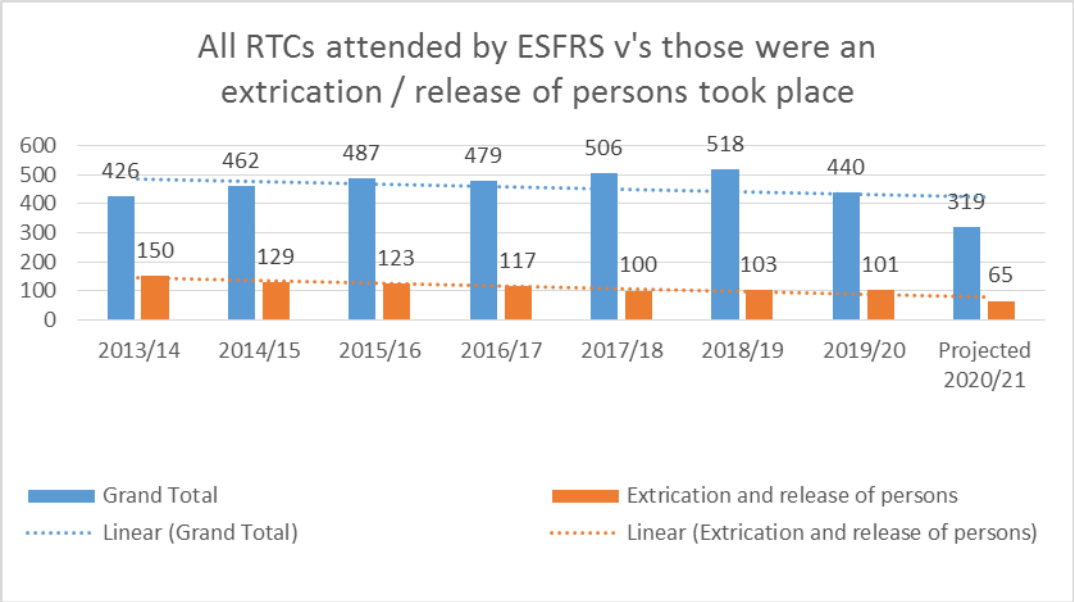
Table 4 number of ESFRS attended RTCs against the numbers of RTCs with casualties attended by Sussex Police in East Sussex

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21 Projected**
RTC ESFRS total attended	426	462	487	479	506	518	440	319
East Sussex All RTCs	2740	3027	3013	2823	2528	2697	2530	N/A
% of RTCs attended by ESFRS	**16%**	**15%**	**16%**	**17%**	**20%**	**19%**	**17%**	

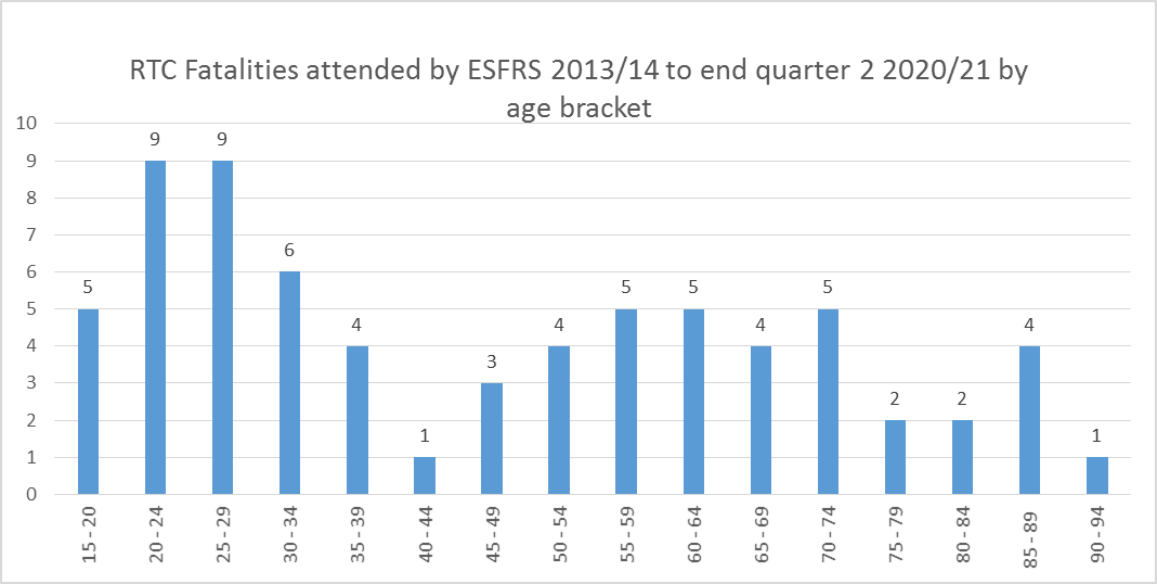
4.2 The graph below shows the number of RTCs attended over a seven year period by type to end of quarter 2 2020/21. The largest category ESFRS is called to is making the scene safe. The total number where we have extricated and or released people is 830 over the period.



4.3 The following chart contains information on the number of RTCs attended against those where an extrication took place. RTC attendances over all are going up, but other than a slight increase in extricated / release of persons trapped in 2018/19, these incident attendances are decreasing. This chart includes a projected year end result for 2020/21 based on quarter 2 data.



4.4 The following chart show that age range of the fatalities in RTCs attended by ESFRS over the seven year period to end of Q2 2020/21.



5. REVIEW OF CURRENT INDICATOR SET DURING THE REMAINDER OF 2020/21 FOR IMPLEMENTATION QUARTER 1 2021/22

Recent discussions between the Deputy Chief Fire Officers in East and West Sussex have resulted in an agreement for ESFRS to consider adopting the Performance Assurance Framework (PAF) devised by West Sussex during 2020. The framework is similar to that in use at ESFRS. Once the framework has been considered at SLT proposals will be presented to the S&A Panel for their approval and or suggested amendments.

6. EQUALITIES IMPLICATIONS

6.1 This report is for information purposes only, so there are no equality implications arising from this report.

East Sussex
Fire & Rescue Service

East Sussex Fire & Rescue Performance Results Quarter 2 2020/21

NOVEMBER 2020

Our Purpose

We make our communities safer

We will do this by:

Commitment 1: Delivering high performing services

Indicator No.	How will we measure performance?	2019/20 Q2 result	National Quartile Position 2019/20	2020/21 Q2 result	Projected end of year result 2020/21	Direction of travel from Q2 2019/20 result
8	Total number of incidents attended	2,783		2,726	10,168	Improved
9	Number of deaths in primary fires	0		0	2	Same
10	Number of injuries in primary fires	4		3	18	Improved
1 Priority	**No of accidental dwelling fires**	**100**		**125**	**461**	**Declined**
11	Number of primary fires	269		307	1,123	Declined
12	Number of deliberate fires	226		243	951	Declined
13	No of Industrial and Commercial fires	35	**This is an ESFRS indicator only, no National data is available for comparison**	49	134	Declined

Indicator No.	How will we measure performance?	2019/20 Q2 result	National Quartile Position 2019/20	2020/21 Q2 result	Projected end of year result 2020/21	Direction of travel from Q2 2019/20 result
14	70% of the first arriving appliances at any incident from an 'On-Station response' within 10 minutes	72.6%	**This is an ESFRS indicator only, no National data is available for comparison**	77.4%	76.5%	Improved
15	70% of the first arriving appliances at any incident from an 'On-Call response' within 15 minutes	72.6%	**This is an ESFRS indicator only, no National data is available for comparison**	75.8%	75.7%	Improved

We make our communities safer

We will do this by:

Commitment 2: Educating our communities

Indicator No.	How will we measure performance?	2019/20 Q2 result	National Quartile Position 2019/20	2020/21 Q2 result	Projected end of year result 2020/21	Direction of travel from 2019/20 result
2 Priority	**% of Home Safety Visits to vulnerable people**	**92.2%**	**This is an ESFRS indicator only, no National data is available for comparison**	**95.9%**	**95.4%**	Improved
6 Priority	**Undertake 12,000 Home Safety Visits**	**2,584**		**1,476**	**5,932**	N/a due to COVID-19 pandemic
	Number of telephone HSVs completed (due to COVID-19 Pandemic)	**N/a**	**This is an ESFRS indicator only, no National data is available for comparison**	**1,432**	**5,900**	Alternative delivery method
7 Priority	**Inspections of high risk premises completed**	**120**		**50**	**364**	N/a due to COVID-19 pandemic
7a Priority	**Busines safety audits completed by Station crews**	**93**	**This is an ESFRS indicator only, no National data is available for comparison**	**13**	**32**	N/a due to COVID-19 pandemic
	Other Business Safety activities and interactions	516	**This is an ESFRS indicator only, no National data is available for comparison**	608	2,282	Alternative delivery method
18	Number of business safety engagement events	7	**This is an ESFRS indicator only, no National data is available for comparison**	1	4	N/a due to COVID-19 pandemic
19	Number of attendees at business safety engagement events	111	**This is an ESFRS indicator only, no National data is available for comparison**	189	1,140	N/a due to COVID-19 pandemic

We make our communities safer

We will do this by:

Commitment 3: Developing a multi-skilled, safe and valued workforce

Indicator No.	How will we measure performance?	2019/20 Q2 result	National Quartile Position 2017/18	2020/21 Q2 result	Projected end of year result 2020/21	Direction of travel from 2019/20 result
3 Priority	**The number of working days/shifts lost due to sickness not to exceed 7.5 per employee**	**2.3**	**This is an ESFRS indicator only, no National data is available for comparison**	**1.8**	**5.6**	**Improved**
20	Number of RIDDOR incidents	4		1	6	Improved
21	Number of workplace reported accidents / injuries	72		72	240	Same

We make our communities safer

We will do this by:

Commitment 4: Making effective use of our resources

Indicator No.	How will we measure performance?	2019/20 Q2 result	National Quartile Position 2019/20	2020/21 Q2 result	Projected end of year result 2020/21	Direction of travel from 2019/20 result
4 Priority	**A 32% reduction of automatic fire alarms (AFA) from the base year result of 2009/10**	**-34.8%**	**This is an ESFRS indicator only, no National data is available for comparison**	**-38.8%**	**-40.5%**	**Improved**
22	% of AFA mobilised calls to properties covered by the RRO that were classified as a primary fire	1.4%	**This is an ESFRS indicator only, no National data is available for comparison**	3.5%	2.6%	Declined
5 Priority	**% of accidental dwelling fires confined to room of origin**	**94.0%**	**This is an ESFRS indicator only, no National data is available for comparison**	**95.2%**	**93.5%**	**Improved**

EAST SUSSEX FIRE AUTHORITY

Meeting	Scrutiny & Audit Panel
Date	12 November 2020
Title of Report	Service Delivery Review
By	Mark Andrews, Assistant Chief Fire Officer
Lead Officer	Mark Matthews, Assistant Director Operational Support and Resilience
Background Papers	Medium term financial plan S&A Panel paper from 13 June 2018 meeting`
Appendices	None

Implications

CORPORATE RISK		**LEGAL**	**X**
ENVIRONMENTAL		**POLICY**	**X**
FINANCIAL	**x**	**POLITICAL**	**X**
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES	**x**	**CORE BRIEF**	

PURPOSE OF REPORT

To advise the Panel of the outcome of the requested review following the implementation of the Service Delivery Review highlighting the identified performance measures as detailed and agreed by the Scrutiny & Audit Panel at its June 2018 meeting.

EXECUTIVE SUMMARY

This review reflects our continued commitment to making our communities safer. The report details the work undertaken to review operational service delivery and provides data and findings a year after implementation of the project, against a base of the previous year.

RECOMMENDATION

The Panel is asked:

(i) Note the contents of the report and close down evaluation in light of the forthcoming Operational Response Review (ORR) and associated monitoring that will pick up the ongoing performance measures.

(ii) Support the further recommendations that would be monitored through appropriate directorate plan.

(iii) To consider whether the planned Internal Audit on SDR is still required and if so what particular focus should that take.

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1 INTRODUCTION

1.1 ESFRS is committed to drive continuous improvement by delivering high performing services and making effective use of our resources within the Fire and Rescue Service.

1.2 The biggest external driver for change was the significant re-focusing of the service delivery model over the last ten years and its constant re-shaping into the future as we work with local partners in responding to demands and risks in our communities, with a strong focus on prevention and protection activity.

1.3 In addition, and as part of this focus, there were other external drivers such as the Home Office reform agenda, the new legal duty to collaborate and discussions around public service spending reviews.

1.4 The time was therefore right to review the operational officer structure and consolidate the effect of these changes in order to provide recommendations for a revised framework that supported the organisation and which would support the future challenges that the Service was facing at that time through strong leadership.

1.5 SLT agreed a number of proposals following the Service Delivery Review and the project went live, as scheduled, on the 1st February 2019. All of the proposals related to operational based activity and therefore the subsequent decisions were taken by SLT. One of the proposals however, was directly linked to an earlier decision taken by the FA regarding the trial of locality managers. This decision was also highlighted within the 2015 Medium Term Financial Plan, due to the associated budget changes.

1.6 A small project team was established to implement the project.

An Implementation Board, chaired by the ACFO, was convened and provided scrutiny and oversight of the delivery of the project.

1.7 The Service Delivery Review was commissioned as a consequence of the existing integrated risk management plan (IRMP) and was not undertaken in isolation and took full cognisance of several other pieces of work being undertaken at the time, including the National Services Expectation Management Programme (now known as the “Fit for the Future work”), the Fire Cover Review (now known as the Operational Response Review), Demand Led Review, the Special Appliance

Review, the Organisational Development work (That has lead to the development of the Behavioural framework) and the Regional Fire Investigation work stream.

2 MAIN ISSUES

2.1 The proposed changes were designed to further improve the effectiveness and efficiency of our prevention, protection and response services and improve the wellbeing of staff in line with the original scope for the project. The key strategic outcomes sought were:

- Redistribute resources to improve the capacity of the service
- Provide a structure that further supports effective collaboration and partnership
- Support the increase in front line productivity; including HSV and Business Safety Audits
- Respond to the outcomes of the Grenfell incident by increasing the resources of Business Safety to ensure effective delivery
- Enhance the Services Welfare and Wellbeing offer to staff though the provision of effective preventative measures
- Encourage the appropriate devolvement and delegation of responsibility to ensure effective empowerment at each tier of the organisation
- Ensure the effective delivery, and ongoing maintenance, of the Support and Delivery Framework that is designed to maximise community return by prioritising critical services and activities and ensuring staff are supported to deliver these services
- Liberate additional capacity to ensure the continued focus on critical training, exercising, identification of risk, debriefing, quality assurance and embedding learning outcomes, which will collectively enhance firefighter safety
- Enable the delivery of the new HMI inspection programme to become day to day business
- Ensure that the service is equipped to deliver the training strategy by harmonising station and training centre provision
- Allow more effective engagement with local communities and maximise productivity by ensuring staff are more visible and effective in the community
- Provide clear career progression paths and talent pools
- Reduce the overall number of officers to reflect the reduction in firefighters and to fall more in line with our family benchmarking group

2.2 The proposals were re as follows:

2.21

Reduce the number of Boroughs from 5 to 3.
Move to a single tier for the roles of WM, SM and GM.
Removal of the 42 hour station manager role.
Removal of the Locality Managers posts in Hastings, and reinstatement of Watch Managers aligned to watches in Hastings.
Provide an additional 4 flexi duty officers.
Removal of the dedicated Wealden/Rother/Lewes Road Safety coordinator.

Replace 5 x 42 hour Station Manager posts with Watch Managers and one with a Green Book post.
Implementation of a structured career and development path for grey book operational staff.
Provision of an extra flexi duty Station Manager to each Borough.
Redistribution of a further 2 x flexi duty Station Managers, one into each of the B&H/Lewes and Wealden/Eastbourne areas.
Introduce a dedicated Watch Manager post as Fire Investigation support within the Business Safety team.
Provision of a CM in the Hastings/Rother and Wealden/Eastbourne Borough Business Safety teams.
Centrally held references such as Water and HVP will be devolved to the appropriate Station Manager within the Safer Communities directorate.
Combination of the resources currently allocated to operational improvement and operational assurance.
Change the current officer's rota structure to ensure a more resilient one that takes cognisance of the response to two simultaneous level two incidents and the total number of flexible duty officers available.
Restructure of the Boroughs and other departments so as to embed Business Safety, Community Safety Advisors and Human Resources Business partners.
Removal of 4 CM posts at Eastbourne and replace with 4 FF posts.

N.B. The proposals in italic are discussed in more detail below.

2.3 **Previous Fire Authority Decision**

2.3.1 As detailed above in 1.5 one of the proposals was directly linked to a trial agreed by the FA as part of the medium term Financial Plan in 2015.

'Removal of the Locality Managers posts in Hastings, and reinstatement of Watch Managers aligned to watches in Hastings'.

2.3.2 As part of the medium term financial planning savings in 2015-16 Locality Managers (4 x Watch Managers) were introduced in Hastings. Reviews of the effectiveness and efficiency of these new posts were conducted, both internally and through external peer review. Due to changing Service priorities and the review outcomes it was identified that this resource should be more widely distributed across the proposed three groups to improve overall resilience and productivity. The lessons learnt together with the best practice identified helped define the role requirements of the realigned posts.

2.3.3 As a result of this change, the Hastings establishment returned to the previous configuration, with the 4 Locality Managers posts being relocated to align with the 4 watches at Bohemia Road. The 4 Crew Manager posts at the Ridge were therefore converted to Watch Manager posts.

2.4 Key proposals

2.4.1 **Move to a single tier for the roles of Watch Manager, Station Manager and Group Manager**. The national change in rank to role was introduced to simplify

service structures, within this process ‘A’ or ‘B’ determinations were established to differentiate between job sizes in the same role within the NJC agreed Role Maps. Accordingly a pay differential between the two job sizes is reflected in the NJC pay scales. Differentiation between the job sizes was determined by a number of factors such as complexity of tasks, planning and level of work impact. These factors were assessed by panels based on job descriptions, which included an appeals process. This process was lengthy and created increased workloads for departments such as HR and Safer Communities through having to run additional processes for promotions and job evaluations. The report proposed a single tier system at watch, station and group manager level consistent with the current crew manager tier and the simplification of a number of processes liberating capacity whilst avoiding the, sometimes, divisive impact of staff feeling their post had been incorrectly evaluated on comparison to others and therefore feeling, at the time, in their words ‘less valued’.

2.4.2 With the **removal of the 42-hour Station Manager posts** and **reduction in the number of group managers** due to the merger of The City and Lewes Boroughs and Hastings and Rother Boroughs and the proposed sharing of a GM by the then Sussex Control Centre and Operational Support and Resilience. As a result the total number of station managers and group mangers were reduced from 38 to 30. This has brought ESFRS in line with other FRS’s in our family group.

2.4.3 **Removal of the dedicated Wealden/Rother/Lewes Road Safety coordinator.** This was a secondment opportunity post and enabled the Service to undertake a significant amount of work in regard to a range of campaigns that focussed on the reduction and severity of road traffic collisions. The learning points from this work have now integrated as part of day to day working in each of the groups as outlined in the draft Safer Communities Strategy. The additional resource in each Group continues to provide the resource to continue this work. The previous post holder was offered redeployment but took redundancy.

2.4.4 **Provision of a crew manager in the Hastings/Rother and Wealden/Eastbourne Borough Business Safety teams**. These posts provide the opportunity for career development through Business Safety as well as additional resources to enable the service to respond to issues that arise such as the fall-out from Grenfel Towers incident.

2.4.5 **Restructure of the Boroughs and other departments so as to embed Business Safety, Community Safety Advisors and Human Resources Business partners**. This has ensured that the correct resources are in the right place at the right time to provide support and resilience to the Groups enabling timely response and prompt action to a whole range of matters.

2.4.6 **Removal of four crew manager posts at Eastbourne and replace with four FF posts.** When the medium term financial plan was agreed there was a reduction in staffing levels at Eastbourne as it was across all other wholetime fire stations. However, at that time the ratio of junior officers to firefighters at Eastbourne was not changed to reflect the new establishment. Consistency of ratio has now been achieved by converting four crew manager posts to firefighter posts.

3 PERFORMANCE REPORTING

3.1 A range of performance measures were developed and agreed at the S&A Panel meeting on the 18th June 2018. Monitoring and reporting on these measures have ensured we are able to identify the success of the implementation of the proposals as well as further areas and recommendations for continued performance improvement.

3.2 Internal Audit 2020/2021

Members will be aware that when the plan was drawn up for this internal audit programme the outcome of the monitoring of the SDR review had not been completed. This work has now been completed and is presented to you in this report. Given the detailed and thorough findings that are included in this paper members are asked to consider if they would still wish for an internal audit on the SDR to go ahead and if so what specific areas would they wish to concentrate upon?

4 FINANCIAL ASSESSMENT

4.1 The financial assessment of the Service Delivery review proposals encompassed a detailed reconciliation of the current and proposed structures against the agreed budget for operational pay and on-costs. This covered three of the six directorates (at that time now reduced to five) and also a number of corporate budgets. This assessment identified the direct financial impact of the review proposals (primarily the regrading of posts from WMA to WMB and SMA to SMB), and associated savings through the removal of posts at GM level and a small number of historic budget misalignments between the operational establishment and budgets within Safer Communities.

4.2 Two key objectives of this Review was to achieve a reduction of fixed term contracts (averaging 21 contracts per year) and overtime (overspending by 300k); two unintended and therefore unfunded impacts of the changes made following the delivery of the 2014/2015 Integrated risk management plan. An additional 240k a year has been added to the Safer Communities budget to reconcile this shortfall pending the outcomes of the Operational Response Review and the proposed introduction of the 8-12 flexible resourcing posts that it is expected would remove the need for this additional funding.

5 CONSULTATION

5.1 The service followed its policy with regard to consultation with the Representative Bodies and individuals in line with employment law. The implementation of the project did not lead to any compulsory redundancies.

5.2 Consultations with different workforce groups took place and the outcomes assisted in producing the content of the proposals of the project.

6 CONCLUSION

6.1 The Service Delivery review was focussed on improving performance and effectiveness of front line services by adjusting the current establishment to place resources and decision making at the front line of the Service.

6.2 The review also focussed on delivering streamlined levels of officer establishment from watch, station and group manager, which has significantly reduced the administration and impact of transfers, promotions and secondments across the officer cadre.

6.3 The development of a new officer rota has provided increased resilience, availability and assurance along with dedicated officer specialisms such as fire safety and fire investigation to support wider strategic operational objectives.

7 MAIN FINDINGS OF MONITORING A YEAR FOLLOWING IMPLEMENTATION

7.1 **Cost of officer overtime** for 2018-2019 the base budget spent was **£22,000**. In the first year following implementation of the SDR the cost of overtime was **£9,762. This is a savings of £12,334.**

It must also be noted that there was a need to upskill some of the new Station managers that were appointed as part of the SDR. Whilst these training courses were run there was a need to bring in other officers on overtime to cover the operational response rota. If this had not been required the savings would have been greater and are therefore likely to increase as this training is completed.

7.2 **Fixed term contract staff**. When the project went live in **2019 there were a total of 21 FTCs in place** across the service. At the end of **March 2020 there were a total of 12 FTCs in place which is a reduction of 9**. The 12 are against a stretched target of 8.

Of the 12 in place at March 2020, **8 are unfunded** covering sickness and **4 are funded** as they are covering temporary promotions up the chain. Of the 8 that are unfunded there is the crewing contingency funding for 6 posts. Effectively we have therefore reduced the FTC down to 2. This has produced a reduction in cost pressure of approximately 13 (FTC removed) x 40k (Firefighter cost) = 520k.

7.3 **HSV delivery**. In 2018 – 2019 we achieved our target of 10,000 HSVs. As we become more sophisticated in targeting those most vulnerable we are finding that more and more visits are requiring a greater amount of time to deliver and therefore the same level of performance that would result in 12,000 visits being delivered, now results in less than 10,000, based on Safe and Well advisor's (S&WA's) delivering 84 visits a month and the crews delivering their stretched target of 7,000. Funding for the two specialist S&WA's was removed at the time of go live. Although alternative funding is being sought to provide further options in the future the 12,000 visits was also predicated on this resource being available.

A number of innovative ideas have been considered by the members at a recent member's seminar as we face the challenge of balancing quality and quantity and members agreed 10,000 high risk visits represents an equivalent stretched target in light of this update.

Performance of both the crews and the teams continues to be closely monitored and the crews delivered the required stretch target of 7,000 for 18/19 and were set to repeat this stretched target this current year if it were not for the impact of the CoVid epidemic, they still however successfully completed 6,698.

In summary the 5,000 target set for S&WA's based on 8.4 staff (hours) and lone working is not realistic with a staff count of 6.4 working in pairs and 3,000 now represents a significant stretched target (beyond that of the 5,000 due to change in circumstances). That will need to attract some innovative practice to ensure the Service maintains a capacity of delivering 10,000 high risk visits over the forthcoming financial year (2020/21). We are unlikely to deliver anywhere near this number due to the ongoing CoVid lockdown requirements but we are attempting to achieve at least 10,000 community safety interactions that includes virtual HSV's, wellbeing phone calls and advice packs to name a few so that we continue to successfully reduce the risk in our communities that would further support improved performance over the 18/19 baseline that in itself was the highest number delivered on record.

7.4 **Business Safety Audits**. In 2018-2019 a total **of 599 audits** were conducted against a target of **500**

In 2019-2020 a total of **811** audits were conducted against a stretched target of **750.**

This is a breakdown of **405** audits conducted by the Business Safety team and **406** by operational crews, resulting in **66 above target**.

Performance in the critical areas has therefore improved and the successful targeting of high risk premises has resulted in a reduction in **46** accidental dwelling fires this year from the 2018/19 of **509** to a 19/20 figure of **453** and a reduction of **53** in commercial fires form a 2018/19 figure if **190** to a 19/20 figure of **137**.

7.5 **Officer attendance** at incidents has been monitored for 2018-2019 and 2019-2020 and although there has been an increase in incident attendance by officers this has not been excessive and is considered reasonable when looking at total time spent at operational incidents as opposed to time available for general management duties. The total number of incidents attended is considerably higher for some officers than others. This is specific to their geographic location and associated operational activity in that area. The number and type of calls are continually monitored and reviewed to ensure that identified officers are not subjected to additional stress related to attending relatively a higher number of incidents to others.

7.6 There has been a **reduction in the workload for the HR team related to promotion processes**. In 2018-2019 there were **7** promotion processes run and in 2019-2020 there were **4** a reduction of **3.** This is due to the SDR bringing in an annual pool process as opposed to running a process every time there was a vacancy.

7.7 **Sickness**

1st Feb 2018 – 31st Jan 2019
During this time period there were 43.5 days amongst the Group Managers and 124 days for the Station Managers lost to sickness. Total of 167.5 days.

The 43.5 days for GMs correspond to just 5 instances of sickness.
The 124 days for SMs correspond to just 17 instances of sickness.

1st Feb 2019 – 31st Jan 2020
During this time period there were 109.5 days amongst the GMs and 625.5 days for the SMs lost to sickness. Total of 734 days.

The 109.5 days for GMs correspond to just 5 instances of sickness.
The 625.5 days for SMs correspond to just 23 instances of sickness.

Although it would appear that there has been a significant rise in the number of days lost to sickness in 2019 -2020, since the go live of the SDR, it is probably more realistic to take account of the number of sickness cases. In doing so there is no change in the number of cases for GMs and only 5 more cases for SMs.

It should also be noted that the main contributing factor to the rise in sickness is the fact that long term sickness rose from 31 days in 2018- 19 to 556 days in 2019 -20.
In 2018 -19 there was only one person who had long term sickness but in 2019 - 20 that figure rose to 7. One individual was long term sick for 192 days, the others were 70, 64, 67.5, 49, 80 and 42.5 days.

It is pleasing to see is that the cases of short term sickness was down over the two years from 39 to 27 days.

It is interesting to note that when examining the operational workloads of the GMs and SMs it is noted that it is not those that attend most incidents that are taking periods of sickness due to work related stress.

8 <u>RECOMMENDATIONS</u>

8.1 The review, as well as producing the findings detailed above, has provided the opportunity to further refine some areas as follows. These will be implemented as we move forward.

1. Officer overtime coding will be reviewed to enable a more effective way to monitor spend against activity as there is an increase in TCG/SCG activity for specific programmed events such as PRIDE and Operation Peel. This

requirement is placing a pressure on the Safer Communities base overtime budget.

2. It has been concluded that there is an ongoing benefit of preparing colleagues effectively for promotion. We have had cases of officer sickness in certain individuals potentially linked to stress caused by the work related to the role that they have been promoted into. Work will now be undertaken to identify ways in which individuals personal resilience can be evaluated and supported in preparation for taking on new roles.

   We will also evaluate the officer wellbeing monitoring process to identify opportunities for improvement. Monthly welfare checks are conducted on many levels but this is not always recorded sufficiently. A system will be developed that provides a quick and easy means for officers to assist with consistent effective monitoring.

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting Scrutiny & Audit Panel

Date 12 November 2020

Title of Report ESFRS Preparedness and Response to Covid 19 Pandemic

By Assistant Chief Fire Officer

Lead Officer Mark Andrews – Assistant Chief Fire Officer

Background Papers None

Implications

CORPORATE RISK	**X**	**LEGAL**	
ENVIRONMENTAL		**POLICY**	
EQUALITY IMPACT		**POLITICAL**	**X**
FINANCIAL	**X**	**OTHER (please specify)**	
HEALTH & SAFETY		**CORE BRIEF**	
HUMAN RESOURCES			

PURPOSE OF REPORT To provide The Fire Authority a briefing on East Sussex Fire & Rescue Service (ESFRS) preparedness and response arrangements to the Covid 19 Pandemic.

EXECUTIVE SUMMARY The COVID-19 pandemic, also known as the coronavirus pandemic, is an ongoing pandemic of coronavirus disease 2019 (COVID-19). In January 2020 the World Health Organisation declared a Public Health Emergency and by the end of that month the first coronavirus cases were reported in the UK.

The pandemic has placed the most exceptional burden on society and has tested every part of our national, local and personal resilience yet throughout the crisis ESFRS has continued to meet its statutory duties, support the local resilience response and adapt its working practices to keep our own colleagues safe, well and secure.

Whilst the pandemic is far from over as we begin to see the full effects of the anticipated 'second wave' this report provides Members with an interim update on the preparedness and response arrangements put in place by

officers to respond to this unprecedented set of operational circumstances along with some key data and performance information during the crisis.

Recommendations	The Panel is asked to consider and assess the East Sussex Fire & Rescue Service preparedness and response arrangements to the Covid 19 Pandemic.

1. Introduction

1.1 First identified in December 2019 in Wuhan, China. The outbreak was declared a Public Health Emergency of international concern in January 2020 and a pandemic in March 2020.

1.2 By February 2020 the Sussex Resilience Forum (SRF) commenced weekly meetings to discuss the ongoing situation and at a meeting of the Executive Group a revised Pandemic Flu Plan was agreed. Simultaneously officers were reviewing the ESFRS business continuity plans and beginning to consider the likely impact of the pandemic.

1.3 By March 2020, when the pandemic was declared a major incident, ESFRS had fully implemented its business continuity plans and established the Emergency Management Team (EMT) and dedicated Covid Working Group (CWG) to manage the ESFRS response to the crisis.

1.4 Whilst the scale and impact of Covid-19 was unprecedented, ESFRS did have existing plans in place that we were able to implement and adapt to allow us to respond effectively to the immediate impacts of Covid and to develop and broaden further as the scale of the pandemic unfolded throughout the year.

1.5 Structure and communication are crucial in any major incident and this pandemic was no different. With a dedicated team of officers working full time on the response internally which ensured the Service could quickly respond to the dynamic and unique circumstances of the pandemic to adapt local policy to balance business as usual with the demands of the impact of the virus.

2. Resilience, Governance and Business Continuity

2.1 ESFRS have comprehensive business continuity plans and procedures that are regularly reviewed and tested to ensure that the Service is suitably prepared and ready in the event of a rising tide or emergency situation occurring in Sussex or beyond. These plans are linked to the Sussex Resilience Forum community risk register and include events such as major flooding, fire, fuel interruption, significant loss of staff, loss of power or pandemic flu.

2.2 ESFRS officers have a long standing role within the Sussex Resilience Forum, which ensured that at the very early stages of the pandemic, ESFRS were involved in the contingency planning and preparedness. In as early as January 2020 officers took part in pandemic contingency meetings as information on the scale of the virus became apparent.

2.3 Whilst the existing business continuity plans for both the SRF and ESFRS provided a useful framework for our response the scale and complexity of the pandemic required the Service to adapt our plans. However due to the impact of the virus more widely in the community much of the 'normal' demand on the Service initially subsided and did allow officers to be redirected to support the CWG. This initial effort ensured that key policies, procedures and risk assessments could be amended to allow the service to adapt its response accordingly.

2.4 Officers aligned the strategic response objectives to the SRF and NFCC to ensure consistency with an overall aim of maintaining our statutory duties, assisting the local resilience response and protecting the safety and wellbeing of our workforce. Officers also identified the importance of effective recovery, therefore some longer term plans were initiated to assist in recovery once this stage was reached.

2.5 Information flow and communication remains a crucial element of the response. The demand for information and data by MHCLG, NFCC, SRF, press and the workforce was considerable. Our communications cell worked around the clock to ensure that timely and accurate reporting could be provided alongside an adapted internal and external webpage to assist with the constant demand for updated information. Key stakeholders from across the organisation were seconded onto the CWG to ensure the best advice and information sharing such as human resources, health and safety, training and representatives from the Fire Brigades Union (FBU).

2.6 Liaison with the SRF was crucial and a number of officers were also seconded onto the forum during the pandemic to assist with the wider Sussex response to undertake lead activities for vulnerable people, tactical response and business continuity. This was essential to ensure that ESFRS was on the front line of the community response to support such activities as deliveries of food and PPE, checks on the vulnerable and wider coordination activities.

2.7 With the introduction of the *The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings)(England and Wales) Regulations 2020* Fire Authority (FA) governance could be continued throughout the pandemic via video conference meetings. This ensured the normal business and decision making of the FA was uninterrupted and ensured for example that the 2020 consultation and decision making for the Integrated Risk Management Plans could proceed. The Senior Leadership Team meetings were also conducted as normal via video conference facilities.

3. Service Delivery during the Pandemic

3.1 Protecting the core response role and maintaining the safety of our front line crews was a priority and robust degradation plans, adapted operational procedures based on national guidance, additional Personal Protective Equipment (PPE) and risk assessment ensured that throughout the pandemic operational response has continued.

3.2 Training and development was adapted to ensure that critical role base training could be maintained such as breathing apparatus and incident command. Training centre adapted the shift system to maintain resilience and as the lockdown measures were eased other essential training could be introduced such as driver and first aid refreshers. Other adapted ways of working included giving training via video conference and ilearn packages.

3.3 On Call availability improved during the pandemic as some on call colleagues found themselves working from home and therefore offering additional availability. Overall this improved on call appliance availability from an average of 75% up to 87% during the height of the pandemic. On call training needs had to be assessed due to the initial suspension of drill nights but by using ilearn packages and local ways of working allowed essential contact and core skills to be maintained.

3.4 The NFCC played a central role for the fire service by establishing a National Fire Gold Command to coordinate a number of activities and policies for the sector. Specifically the NFCC worked with the National Joint Council for Local Authority Fire and Rescue Services and the FBU to produce a number of 'Tripartite Agreements' that has allowed firefighters to assist ambulance services, deliver vital supplies to the elderly and vulnerable, assembling PPE, training care home staff in infection, prevention and control and move the bodies of the deceased. This national support has allowed local FRSs to determine what support they can provide the local or regional effort. Whilst ESFRS have been ready and able to support these activities the reality of the demand in Sussex meant that very few of these activities were used in practice; although officers have supported deliveries of PPE, food supplies and some firefighters have been trained to drive ambulances although this capability was not mobilised to date.

3.5 Although initially affected by lockdown and wider public health restrictions officers quickly adapted ways of working to ensure that vital prevention and protection activity was sustained. With a focus on the most vulnerable households and businesses within the community officers set up a number of new procedures to ensure ESFRS could safely and effectively continue to deliver our statutory community and business safety roles in the following ways:

3.5.1 Vulnerable people call scheme

Set up to identify existing clients from the HSV database who were considered to be vulnerable; living alone, lack of mobility etc. Staff from across the prevention department who were unable to undertake their primary roles, i.e. the Education Team, Prevention strand leads, were provided with lists of people to call and check that they were coping.

3.5.2 Befriending calls

This scheme was developed when the scale of isolation and loneliness within the community became apparent as a result of the vulnerable people call scheme.

3.5.3 Home Safety Visits (HSV)

Redesign of HSVs to comply with Covid legislation and guidelines. Lockdown and the high risk of virus transmission immediately stopped physical home safety visits from being undertaken. As a result HSV Telephone Assessments were designed and implemented along with risk assessments, tip sheets for staff and training. Telephone assessments where high vulnerability was identified were supplemented with Information Packs to provide home safety advice for people who can self-serve. In the most serious cases or referrals safe and well advisors carried out carefully assessed visits to the home.

3.5.4 Social Media messages

Provision of information on HSV, fire safety and wider prevention promotions on social media in order to maintain community confidence that HSVs were still available and ESFRS continues to reduce fire risk.

3.5.5 Creation of the HSV Task Force.

The task force was created when we started to see a decline dramatically during lock down in referrals from our partners. Weekly Webex meeting were originally set up to develop new ways of working and help generate HSVs and Action plan was developed including, radio interviews, promotional material, food banks, supermarkets, banners, radio ads, advice and guidance to parish and borough councils.

3.5.6 Cadets

Staff and leaders developed virtual web based sessions for both the Eastbourne and Crowborough cadet schemes. Cadets were also supplied with online resources, a weekly newsletter, a WhatsApp group and Instagram to maintain contact and involvement. In total 11 weeks of activities have been made available to cadets to keep them engaged at home. This has ensured that officers have maintained the full cadre of fire cadet members during the whole period of the pandemic.

3.5.7 Protection and business safety activity

The pandemic has required a diverse and innovative approach to regulatory inspection and enforcement that ensures continued community and business safety whilst

recognising the exceptional circumstances that prevail. Officers have applied a risk assessed approach to fire safety and utilised national guidance provided by NFCC which sets out how we should start to restart some activities on a proportionate basis which were previously suspended or reduced. Officers adapted fire safety delivery to target businesses where coronavirus could increase the risk of fire as well as continue to target life safety premises such as care and sheltered housing. Overall during the pandemic officers have given bespoke fire safety advice to 645 business premises. Other protection activity focussed on responding to complaints but also included general fire safety advice given out by the officers including a targeted campaign to contact all care homes in the county.

3. New Ways of Working

3.1 Throughout the Service colleagues had to adapt to new ways of working in order to maintain our response to the pandemic and maintain as much business as usual as possible. Working from home has expanded significantly with adapted policies and use of technology supporting colleagues ability to operate effectively remotely.

3.2 Rota patterns and shifts for staff have changed to allow them to meet COVID secure controls (Limiting numbers) for example at training centre and most offices colleagues work different patters to reduce contact and exposure to others but still having access to the workplace and maintain core services.

3.3 Technology played a major role in adapting work practices. The Service already had in place a plan for introducing greater functionality for video conferencing and the facilities for remote working were well embedded. This gave the service a head start in working flexibly and colleagues and teams soon became familiar with the use of WEBEX to have department meetings, welfare checks and maintain contact generally. The sharing platform *Workplace* was used to good effect to share stories and thoughts to assist the feeling of contact and engagement and informal groups and teams were established using *WhatsApp* groups to engage with and check on staff welfare.

3.4 Virtual working for training, prevention and protection delivery all proved successful creating a positive legacy opportunity for the future.

4. Welfare and Well-being

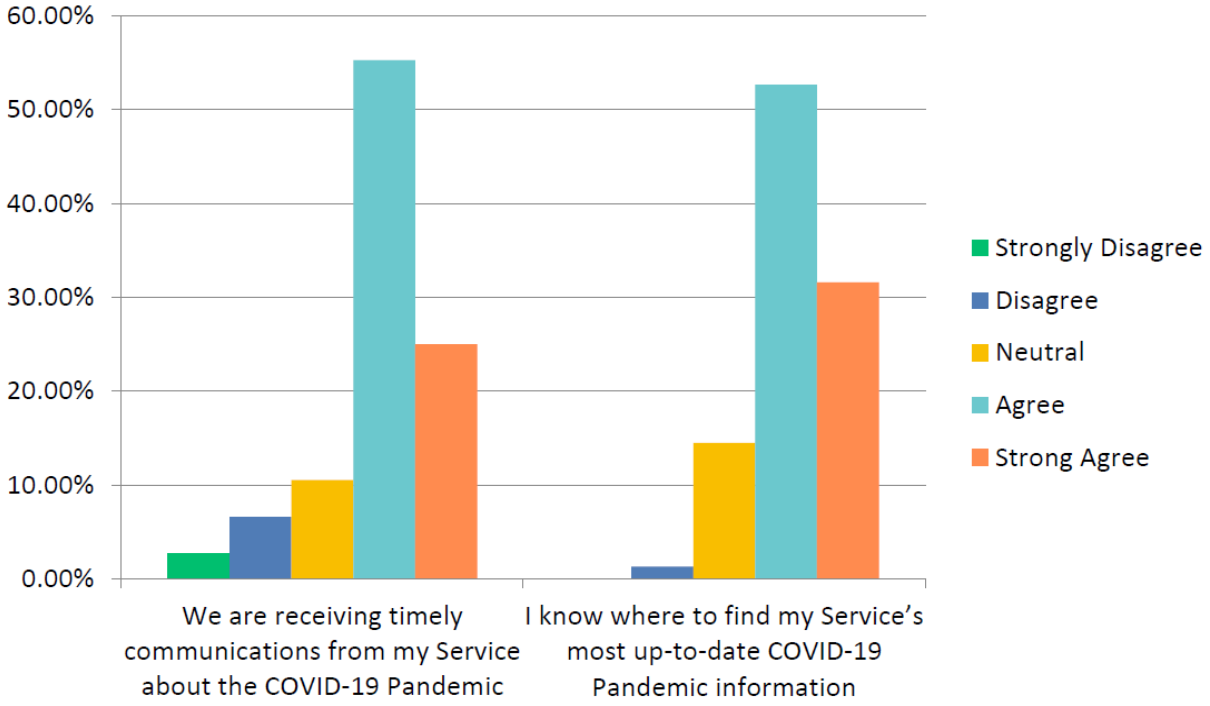
4.1 Welfare and wellbeing for all ESFRS staff formed a key part of the strategy for responding to the pandemic. *Wellbeing* was added to every meeting agenda to ensure that the conversation and culture of welfare and support was a *golden thread* throughout the response given the exceptional and unprecedented nature of the incident.

4.2 A dedicated welfare cell was established to support the CWG with membership from health and safety, HR, occupational health and communications. The cell as lead by the Assistant Director People Services.

4.3 During the height of the response the cell launched a Wellbeing survey in May 2020 which ran for 6 weeks until Friday 10th July with the aim of capturing feedback directly from our staff regarding the impact on their wellbeing during the pandemic and identifying any areas where we can further support or improve our current provisions. We had 76 responses which is 9.5% of our workforce, key themes that ran through the survey were:

- Contact from line managers
- Future and the returning to work for those working at home.
- Communication
- Health and well-being

4.4 The following table is an extract from the survey which outlines the response to communication and awareness and shows a positive picture for the level and availability of information.



4.5 Comprehensive health and safety risk assessments were introduced specific workplace and individual Covid assessments.

4.6 The welfare cell set up a comprehensive internal web page to ensure colleagues had access to up to date and accurate information. Links to health and fitness, nutrition, financial and mental health guidance were included. Supporting this was a regular staff newsletter and regular email and service brief updates.

4.7 Some of the most powerful and successful welfare approaches came from the ideas from staff who innovated using the sharing platform *Workplace* to set up on line forums to share ideas, thoughts and musings to help the sense of working together whilst being apart. As well as helping colleagues keep in touch throughout the pandemic we

also have learned some interesting facts about colleagues favourite pets, favourite bands, how to do the kids homework and even some gardening tips.

5. Performance and Outputs

5.1 During the 3 months April to June 2020 the Service delivered the following performance outputs.

Category	Performance output
All incidents	2,364
Control room 999 emergency calls handled	3,391
Information safety packs and smoke detectors delivered.	1,058
Faulty alarms in properties (replacements at property)	130
Assistance (pastoral) calls to vulnerable people	1,798
Welfare doorstep visits.	360
Home safety telephone assessments.	1,483
Protection and fire safety advice to business premises	645
Appliance availability	87%*
Sickness absence - shifts lost per employee	0.9**

* 2019/20 overall appliance availability on was 75%
** 2019/20 the average quarterly sickness shifts lost was 2.5 per employee

6. Financial Impact

6.1 A Covid-19 grant was allocated to the Service to alleviate an increase in expenditure and shortfall in income relating to Covid-19. £137,000 (tranche 1) was allocated toward the end of 2019/20 and the allocation for 2020/21 is £633,000 (tranche 2). No grant was awarded to ESFRS for tranches 3 & 4 and it is unclear whether any further grant to support the ongoing costs of the pandemic will be forthcoming.

6.2 The grant has helped the Service respond effectively and has been used to support a number of secondments, overtime and additional cleaning. The summary position as of September 2020 is as follows:

	£	£
Grant	770,000	
Savings	395,000	
Expenditure		790,000
Loss of income		165,000
Total	**210,000**	

Estimated collection funds impact 2021/22 onwards		1,800,000
Total Net Impact		**1,590,000**

It is important to note the following in relation to the above figures which are taken from the monthly cost tracker submitted to NFCC / HO:

- Savings – the majority of this figure reflects underspending in training (£302,000) during the first 6 months of the year. The training team are developing a recovery plan and it is likely that a significant proportion of the underspend will need to be held to fund training delayed and also to reflect the additional costs of delivering Covid secure training – the real saving is expected to be significantly lower. Savings in fuel and travel and subsistence in the first 6 months totalling £50,000 have been realised.
- Loss of income – the majority of this figure (£115,000) reflects forecast loss of Treasury Management income above the budgeted level of £75,000 and is based on returns that would have been achieved had rates remained at their pre-Covid levels. This income loss is not recoverable through the Income Loss Compensation Scheme.

In overall terms we are currently forecasting that in-year increases in costs and loss of budgeted income will be covered by a combination of grant, income loss compensation and savings, without the need to call on reserves. This situation may change if there are material additional impacts from a second wave. It is uncertain if any further grant funding will be made available therefore officers are working to identify ways to ensure expenditure remains within budget. The Government has indicated collection fund losses could be repaid over a number of years although exact details are awaited.

6.3 Longer term financial impact of the pandemic is uncertain, the Medium Term Financial Plan reflects this uncertainty in national funding and gives more detail on some of the likely impacts. There may be delays to capital projects and Covid 19 will continue to impact on the Authority's finances through 2020/21 and more markedly into 2021/22 where impact on both the Business Rate and Council Tax Collection Funds will be felt, along with a reduction in Council Taxbase growth. .

6.4 The Government income compensation scheme provides compensation for a proportion of budgeted loss of fees and charges income due to the impact of Covid-19 in accordance with the scheme principles. Whilst the impact for ESFRS is low, a submission has been made to the Home Office for the income loss on commercial training (£18,000) and dry riser testing (£3,300) income covering the period April to July 2020.

7. Lesson Learned and Recovery

7.1 Recovery and governance were very early priorities for the EMT. This ensured that records of meetings, key decisions, risk logs, and policy changes were recorded throughout the response. This process also included a number of 'hot' and formal debriefs to assess the progress, take stock of the impacts and ensure a clear 'lessons learned' record was being recorded.

7.2 When the major incident and response phase was stood down the CWG initiated recovery more formally and the recovery process began. Given the exceptional circumstances of the pandemic recovery was considered not just in terms of return to normality but also what has changed and would be useful to keep for example flexible and remote IT working?

7.3 One of the first roles for the recovery group was to undertake a through and formal debrief of the response phase of the incident. A significant amount of learning was captured in order to determine what went well and where lessons needed to learned for the future. A summary of the key learning points are listed below:

7.3.1 IT

A need for additional IT Hardware such as 2nd screens, room kits and work mobiles for those working from home.

7.3.2 Communications

Ability to send Text Alert for critical communications; greater clarity needed with communications for grey book (mainly operational) & green book staff and Intranet page layout structure needs more clarity.

7.3.3 Logistics

Introduce central stores to improve stocks of critical items such as PPE

7.3.4 Business Continuity

Review of BC plans and clarity on communications and version control of key incident documents.

7.3.5 Service Delivery

There are a number of positive legacy changes that are likely to be adopted as business as usual particularly in prevention and protection where the innovative virtual way of delivering home and business safety messages have been very successful

These and many more learning points are being monitored and implemented via an action plan monitored by CWG and EMT.

7.4 Her Majesty's Inspectorate of Constabularies and Fire and Rescue Services (HMICFRS) will be conducting an inspection from the 3rd until the 13th November which will provide an external assessment to examine how fire and rescue services are responding to the pandemic. Specifically the HMICFRS will be asking:

- What is working well and what is being learnt?
- How the fire sector is responding to the COVID-19 crisis?
- How fire services are dealing with the problems they face?
- What changes are likely because of COVID-19?

8. Conclusion

8.1 ESFRS had robust and up to date business continuity plans to assist in managing a major incident which included generic response plans and specific pandemic flu plans.

8.2 These plans were adapted to meet the exceptional scale of the pandemic which included a full time working group made up from representatives across the Service to ensure that adapted ways of working and policies could be implemented to ensure as far as reasonable normal business activities could continue and resilience and operational response was unaffected.

8.3 Liaison with key stakeholders the SRF and NFCC ensured consistent and joined up messaging.

8.4 Other priorities focussed on staff wellbeing, communication and recovery. Introducing a structure of officer led workstreams ensured these key activities and objectives were met throughout the pandemic.

8.5 Focussing on ESFRS statutory duties using innovative procedures ensured good levels of performance and targeted support to vulnerable people and businesses.

8.6 Early consideration of a recovery cell has ensured that the learning from the pandemic is being monitored and implemented by the CWG to ensure that as far as possible a positive legacy can be taken from the crisis. Although the longer term organisational and financial impacts on the Service are hard to measure, the sustained focus on well being

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EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Scrutiny & Audit Panel
Date	12 November 2020
Title of Report	ESFRS Preparedness for the end of the EU Transition Period
By	Assistant Chief Fire Officer
Lead Officer	Mark Andrews, Assistant Chief Fire Officer

Background Papers None

Implications

CORPORATE RISK	**X**	**LEGAL**	
ENVIRONMENTAL		**POLICY**	
EQUALITY IMPACT		**POLITICAL**	**X**
FINANCIAL	**X**	**OTHER (please specify)**	
HEALTH & SAFETY		**CORE BRIEF**	
HUMAN RESOURCES			

PURPOSE OF REPORT To provide The Fire Authority a briefing on East Sussex Fire & Rescue Service (ESFRS) preparedness in advance of the UK transitioning from the European Union (EU) without a negotiated trade, travel, security or health deals.

EXECUTIVE SUMMARY On 31 January 2020 the United Kingdom left the European Union. There then followed a transition period until the end of 2020 while the UK and EU negotiate additional arrangements with the current rules on trade, travel and business for the UK and EU continuing to apply during the transition period.

On 31 December 2020, at the end of the transition period provided for in the withdrawal agreement, the UK will fully recover its economic and political independence. The UK will no longer be a part of the EU Single Market or the EU Customs Union.

Throughout this period officers have been working with colleagues from the Sussex Resilience Forum (SRF) and the National Fire Chiefs Council (NFCC) to assess the threat and harm to East Sussex and ensure that ESFRS business continuity plans and preparations are suitable, robust, well communicated and well-rehearsed.

The impact of Covid-19 and the time of year also places a greater emphasis on planning for the impact of EU Transition.

Recommendations

The Panel is asked to consider and assess the East Sussex Fire & Rescue Service preparedness and response arrangements to the impacts of the UK exiting transition with no EU trade deal.

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1. Introduction

1.1 The UK left the EU at midnight on 31 January 2020. A transition period is now in place until 31 December 2020 during which time all existing EU rules and laws will continue to apply to the UK. Virtually nothing will change for communities, businesses or for the public and similarly virtually nothing has changed for the fire service. The transition period is designed to give the country more time to prepare and adapt for the new agreements that the EU and the UK intend to make after 31 December 2020.

1.2 On 17 October 2019 the UK and the EU reached an agreement on the conditions for the UK's departure from the EU (Brexit), and on a transition period until 31 December 2020. Within this agreement was the option for an extension but the UK Government has made it clear that there will be no extension to the transition period meaning that on the 31 December 2020 the UK will recover its economic and political independence.

1.3 Throughout the initial Brexit negotiations the Home Office established an overall resilience and contingency plan named *Op Yellowhammer* which had the effect at local resilience and organisational level of preparing plans and mitigations for the impacts of EU Exit without a deal. Many of these plans are now being reviewed and reasonable worst case scenario planning assumptions being revisited in preparation for the 31 December 2020.

1.4 Throughout the EU Exit planning process the SRF has maintained regular contact with MHCLG to receive updates and revised threat and risk assessment reports. The NFCC also continue to maintain dialogue through the Home Office and have

written to every FRS to ensure that local risk and business continuity plans have been reviewed.

2. Reasonable Worst Case Scenarios (RWCS)

2.1 As the country prepares for the 31 December when the transition period ends there is growing concern for the impact of the new arrangements that will be in place on the 01 January 2021. Significant planning and preparation continues across the SRF and within ESFRS. The threat assessment for EU transition has resulted in an additional risk to be recorded on the ESFRS Corporate Risk Register. Whilst Government continue to state that they are confident in terms of planning it is clear that a 'no deal' scenario for trade, access, security and medicine will have implications on the South East in terms of potential travel, supply chain and public anxiety all of which may place a pressure on staffing for the Service.

2.2 The Government have recently released the RWCS planning assumptions for both EU Exit and a second wave of Covid-19 for consideration at ESFRS and SRF level. A RWCS is not what is actually expected to occur and there are a significant number of variables that could impact on reality. The RWCS assumptions are similar to those that we planned for during 2018 and 2019 but the impact of Covid-19 however potentially places a greater emphasis on planning for the impact of EU Transition and specifically covers the following areas:

2.2.1 Border Flows for Freight travelling to Europe

The Government estimate that a number of businesses are struggling to get ready for the amended border processes which will come into place on 31 December 2020. Although the UK is introducing controls at borders in three separate stages, EU countries will have different processes from day one. The expectation is that a significant amount of freight will arrive at crossings without the required new paperwork. There is likely to be a particular impact on the South East and the short straights in particular but, there may also be some impact across major ports in other areas. The potential for severe traffic congestion on operational response and other activities in and around these impacted areas needs consideration.

2.2.2 Energy

There could be fuel distribution issues in Kent, London and the South East linked to freight disruption. Customer behaviour could potentially impact on supply in some other areas of the UK. It is unlikely that there will be an overall shortage of fuel but there could be short-term supply issues. Fuel prices could increase which would impact on low income families and other vulnerable groups.

The RWCS predicts that one or more UK refineries could close. The UK refinery sector is fragile from a commercial perspective during normal operations and will be vulnerable during EU Transition. Strike action of 1-2 weeks at the site of any

refinery that is due to close could give rise to fuel shortages in the surrounding area which is directly supplied from the refinery.

2.2.3 Food Supplies

There could be disruption to the global and UK food supply. Supply of some agri-food products will be impacted, and food prices could increase which will impact on vulnerable groups more than others. This could be particularly impactive in the run up to Christmas where demand is high and there are additional considerations in relation to logistics and storage. If food supplies to vulnerable people in remote areas are impacted there could be a role for the FRS in supplying food to these people. The impact is more likely to be as a result of Covid-19, but the compound impact is worthy of consideration.

2.2.4 PPE

There could be an increase in cost and reduced availability of PPE following EU Transition. Whilst stock levels are healthy in the sector and are monitored closely by the NFCC any increased need for PPE brought on through a Covid-19 second peak needs consideration.

2.2.5 Data Stored in EU Data Warehouses

As was the case last year there is still potentially a risk if the FRS rely on personal data that is stored and/or processed in EU/ EEA Member States and/or countries other than the UK. There could be cost implications of moving the data or operational issues of accessing personal data that is stored outside of the UK.

2.2.6 Increased Incidents of Civil Disturbances

At present the police have no expectation that significant levels of civil disorder are likely in any EU Transition scenario, nor would any evidence to the contrary typically appear until much closer to an actual event. There has been a significant increase in public demonstrations over the last 18 months or so relating to movements such as Extinction Rebellion (XR), Black Lives Matter and even EU Exit. The RWCS is that demonstrations could take place across the UK which potentially giving rise to public disorder and community tension.

2.2.7 Industrial Action/Unrest

The economic situation in the country is particularly difficult at the moment and this could be compounded due to EU transition. This brings with it an increased risk of industrial action/unrest. The industrial relations climate in the sector could become challenging over the next few months and this could bring with it an increased risk of industrial action.

2.2.8 Supply Chain and Procurement Risks

The risks for the sector are divided into immediate and longer-term issues. In 2019 a no-deal Brexit had the potential to impact on supplies in areas such as: breathing

apparatus set parts and supplies; foam stocks in the event of a major incident; specialist vehicle parts; fire appliance tyres, windscreens, and chassis. The risks related to adequacy of stocks where suppliers used a just-in-time approach and increased costs having a detrimental impact on FRS budgets. In 2019 the NFCC sought assurance from the Fire Industries Association (FIA) relating to the robustness of the business continuity plans in terms of supply. Overall, the suppliers were confident of the plans they had in place and did not see a significant supply risk. In 2019 FRSs were advised to consider reviewing their approach to removing vehicles from their fleet to potentially increase the number of reserve appliances held for a period of time after the EU Exit date. It would be prudent to consider this position again ahead of the EU Transition date. It is likely that FRSs will experience price increases on goods that are supplied from the EU, however, quantifying these increases is challenging with the information currently available. In 2019 vehicle chassis for fire appliances were to be subject to a 20% increase due to tariffs and legally this cost can be passed to the FRS even if an existing order has been placed prior to the transition date (31 December 2020).

2.3 Overall the immediate risk of the impact of a No Deal Transition remains moderate (The current risk (R12) is recorded as I=2 L=4 Total= 8). However with less than two months until transition ends the pace of change is accelerating and it is important that the Service continues to monitor developments and assess implications of any changes on our resources and services.

2.4 Throughout EU Exit officers have assessed risk and business impact through an EU Exit Gold Group which provides oversight to the planning assumptions and risk assessment and ensures that ESFRS are well prepared for any disruption caused by a disorderly EU Exit. The Gold Group has identified a number of issues that required further work to mitigate any potential risk to the Service in the lead up or following EU Exit, these included:

- Supplies of Goods and services – officers have reviewed all essential/critical supply chain goods to ensure the maintenance of service delivery specifically around maintenance of fleet vehicles and have confirmed we have a minimum of 6 months' supply.
- Fuel – officers awaiting confirmation on supply services; minimum stock levels and frequency of checks increased. We have updated our local plans are ensure stocks are maintained as high as possible in bunkered facilities.
- Business and community safety – these teams are reviewing plans to support communities likely to be affected such as Newhaven Port/waste and recycling sites to ensure fire safety standards are maintained.
- ICT and data – checks to ensure resilient systems and information security and checks on flows of data.

- Operational response – local teams considering traffic congestion and reviewing tactical plans for ports and travel hubs. Crew's also reviewing civil disturbance and business continuity plans for stations.
- Resources – there is a dedicated team established to support the SRF which includes an officer from ESFRS to support the SRF.

Overall officers are maintaining close communication with our key suppliers ensuring they are adequately assessing and mitigating supply chain risks. We are also moving away from a '*just in time'* approach and are instead continually bolstering the stock levels of critical commodities, to reduce the impact of supply delays and ensure resilience. East Sussex Fire Authority (ESFA) has registered & has received an **Economic Operator and Identification Number (EORI),** with which to make customs declarations under the Transitional Simplified Procedures (TSP) process, in the event of a no-deal scenario.

2.5 Additionally the NFCC have written to FRSs to direct pre-planning activity to cover the following areas:

- FRSs should review their Business Continuity Plan (BCP) for fuel and take measures to ensure adequate supplies of diesel, petrol and any heating oil used are available prior to EU Transition on 31 December 2020.
- FRSs should review their policies and procedures relating to civil disturbances.
- FRSs should seek assurance that multi-agency plans linked to H57 are being reviewed at LRF level.
- Given the lack of capital funding and the uncertainty over levels of future funding levels going forward, each FRS should consider their longer-term financial exposure to price increases for goods and services from the EU.

3. Communications

3.1 A communications cell has been established to support the SRF as part of the Sussex Warning and Informing Group (SWIG). This team is working on a communication plan to provide essential timely information to the public based on the updates provided by Government and local issues as they emerge such as traffic congestion. This team will coordinate messages and media in one place throughout the EU exit process to support individual agencies to ensure a consistent message.

3.2 There is also a need for the SRF network to address how public concerns and enquiries are collated and shared between partners. Recent national media attention around Covid-19 and wider winter pressures has highlighted the role Local Resilience Forums will be expected to play in briefing Government on public reaction to community issues.

3.3 To further assist with effective flow of information with MHCLG a Local Authority Executive Regional Role has been established across the 9 regions (England). Each Chief Executive will use existing contacts and networks to reach into all councils in their region to support timely two-way flows of information between central and local government on relevant practical medium and longer term issues relating to EU Exit in a way that supports the LRF work.

3.4 Internally our communications team (who also support SWIG) have developed a communications plan which will include Service Brief and email updates as necessary.

4. Resilience Arrangements

4.1 In the light of Covid 19 and in discussion with MHCLG the SRF has established a Strategic Coordinating Group (SCG) to cover the broader risks of winter pressures. The SCG is therefore covering 3 distinct workstreams of :

- Winter preparedness (weather event)
- Covid 19
- EU Transition (D20)

The SCG meet on a weekly basis to review local and national planning assumptions; update the threat and risk assessment and share key information between category 1 and 2 partners. The SCG receives specific updates from the EU Transition workstream on any matters arising from MHCLG, neighbouring Forums and partners.

5. Conclusion

5.1 There remains uncertainty over the end of the EU transition phase and the final trade deals that are being negotiated. Preparedness has been escalated by MHCLG to ensure that Local Resilience Forums are focussed on the impact of concurrent major events of Covid 19 and Winter Pressures.

5.2 Significant work has taken place within ESFRS and the SRF to ensure plans are in place for operational preparedness and public reassurance over the next 3 months and beyond. National and local planning assumptions have been fully evaluated and resources put in place to support a strategic coordinating group to manage any impact or incident that may occur as a result of traffic congestion or public disorder.

5.3 Internally officers have established a Gold Group to review business continuity and operational plans to ensure ESFRS is as well prepared as possible to support

resilience and business continuity for East Sussex over the coming weeks of uncertainty.

EAST SUSSEX FIRE AUTHORITY

Panel	Scrutiny & Audit
Date	12 November 2020
Title of Report	Fire Authority Governance – Update Report
By	Abigail Blanshard, Senior Democratic Services Officer
Lead Officer	Abigail Blanshard, Senior Democratic Services Officer

Background Papers	Fire Authority Report, Independent Review of Fire Authority Governance – Outcome Report - 6 December 2018

Appendices	None

Implications

CORPORATE RISK	✓	**LEGAL**	✓
ENVIRONMENTAL		**POLICY**	
FINANCIAL		**POLITICAL**	✓
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT

To update Members of the Authority on the progress and status of the actions arising from the independent review of governance of the Authority

EXECUTIVE SUMMARY

In December 2017, East Sussex Fire Authority requested a review be undertaken into the political and organisational governance arrangements in place across the Authority and in relation to East Sussex Fire and Rescue Service.

The Good Governance Institute were awarded the contract and carried out their review in 2018. The process was overseen by a Member Reference Group with support from officers.

The report of the Good Governance Institute was submitted to the Fire Authority for consideration in December 2018. Members discussed and each proposal in turn and agreed to act on some and chose others not to enact.

Members were given a progress update by the Senior Democratic Services Officer at their Seminar on 15 July

2019. This report provides a further update on progress on the actions that the Fire Authority agreed it wished to take.

RECOMMENDATIONS The Authority is asked to:

i) consider the contents of the report; and

iii) direct officers to progress with outstanding recommendations on the basis outlined within.

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1 INTRODUCTION

1.1 In December 2017, the Authority requested a review be undertaken into the political and organisational governance arrangements in place across the Fire Authority and in relation to East Sussex Fire and Rescue Service.

1.2 The Authority recognised that good governance is essential to address the challenges the public sector faces and to ensure public engagement and transparency in public sector service delivery. The oversight of governance systems is the responsibility of the relevant local authority and, given that there is evidence that governance issues are a material risk across the fire sector.

1.3 The Fire Authority agreed the review should be conducted by a third party in order to provide capacity, expertise and independence. Following the normal procurement and commercial processes the Good Governance Institute (GGI) were awarded the contract.

1.4 A Member Reference Group (MRG) was established, made up of the Chairman of the Fire Authority, the Vice Chair of the Fire Authority, the Chairman of the Scrutiny and Audit Panel and the Group Leaders. The MRG was been supported by the DCFO, and other officers of the Authority.

1.5 The MRG, along with officers considered the final report from the GGI presented the full Authority with the final report and their proposed response to the recommendations contained within it. Not all recommendations of the GGI were accepted Fire Authority.

1.6 Overall the GGI report showed that the Fire Authority had in place governance arrangements and a satisfactory system of internal control, both of which were fit for purpose and operating effectively. The GGI found there was robust governance documentation and resources, as well as understanding and competence among individuals. It was suggested that there was an opportunity for business practices to more consistently deliver greater effectiveness, and for the Authority to develop to the next stage of governance maturity.

1.7 For the purposes of this report each accepted recommendation is detailed and followed by the action taken and current status.

2 GGI RECOMMENDATIONS – ACTIONS TAKEN AND CURRENT STATUS

2.1 Recommendation 4 – *"The Authority should carry out a skills audit, and in light of the results consider options for improving governing body sustainability through considering amending the Authority size, and the potential appointment of associate Panel members"*

2.1.1 **Action:** Since this report we have joined South-East Employers (SEEmp) and will work with them to undertake a "Member's skills audit". This will look at each Members' IT & communications skills and equality & diversity awareness amongst other aspects of being a Fire Authority Member. Once completed it will show us the skills we have as an Authority and where there are gaps. It will allow us to tailor training & development opportunities for you all and will perhaps highlight members who have skills that we are unaware of that they might be willing to share to benefit us all.

2.1.2 The intention is that following the scheduled elections in 2021 a skills audit of all Members will be appropriate. In the event that we find ourselves still in the constraints of COVID-19 and the election is required to be postponed then the skills audit will proceed with current membership as an election would likely be delayed for a year.

Status: Outstanding

2.2 Recommendation 5 – "*The Authority should agree an externally facilitated 'board development' programme to enhance both governing body effectiveness and resilience. This should focus specifically on the strategic and operating context of the Fire Authority, and not seek to replicate general development delivered through Constituent County and City Councils, or the LGA.*"

2.2.1 It was agreed that this will be completed using SEEmp to provide a "board development" session at a future Member seminar and that this would be done after the completion of the proposed skills audit. This would ensure that it is an independent facilitated discussion to support open and honest dialogue.

Status: Outstanding

2.3 Recommendation 6 – "*Through the board development programme, the Authority should work through conflict of interest and Code of Conduct issues in relation to the Authority's reputation as an asset. Enhancement of the Code of Conduct should be considered*"

2.3.1 This recommendation was not agreed in full by the Fire Authority as changes to the Code of Conduct were felt to be unnecessary as it was very closely aligned with those of the Constituent Authorities. Instead, the Fire Authority agreed that the most appropriate action would be to strengthen and enhance the Fire Authority's "Expectations of Members".

2.3.2 This has been achieved by updating and adapting the Member Handbook which has been issued to all members. The Handbook now includes details of the expectations that ESFRS has of all its Fire Authority Members and specific expectations of those appointed to key roles.

2.3.3 Particularly referenced in the "Expectation of Members" are accountability, role and function, making decisions and overseeing performance, representing the Authority, governance, ethical standards, relationships, personal and role development and rights and duties

Status: Completed

2.3.4 *It is worth noting that the Code of Conduct has been selected as an area in need of updating as part of the current review of the Fire Authority's Constitution being undertaken by Brighton & Hove City Council. This will be discussed by the Members of the Constitution Working Group and any proposed changes will be brought to the Fire Authority in 2021 once the review is completed.*

2.4 Recommendation 10 – *"The Authority should clarify expectations from Members in relation to internal and external stakeholder engagement, and this should be managed within an activity plan linked to the strategic objectives"*

2.4.1 The Fire Authority agreed that this recommendation would be dealt with in the combination with Recommendation 6 by means of the review of the "Expectations of Members" document. It was felt that this was an opportunity to outline how Members were expected to engage with the public on Fire Authority matters though their various roles on multiple authorities, Parish Council meetings, councillor surgeries etc.

2.4.2 Members are kept informed of Service updates and information through a weekly Member email and know that if they need assistance in terms of signposting and information they can contact Democratic Services. In relation to public consultation documents related to proposals for service changes, such as the recent IRMP Consultation, the Communications and Marketing team include "key messages" for Members to allow engagement with the public from an informed position.

2.4.3 The Members Handbook meets another Fire Authority resolution to include the Service's expectations of Member attendance at meetings, seminars, open days, events and pass-out parades. Democratic Services, as agreed by the Fire Authority, track and record a member attendance at meetings and engagement with outside events. Member attendance at Fire Authority and Panel meetings are recorded and published on Modern.Gov and reported annually to the Scrutiny & Audit Panel.

2.4.4 Members are regularly reminded to inform the Democratic Services team of all the events and additional meetings that they attend.

Status: Completed – ongoing, business as usual

2.5 Recommendation 12 – *"The Authority should introduce a refreshed induction programme, and ensure that this includes opportunities for engagement with Member colleagues and service level staff outside of formal settings. This should be supported by a more systematic programme of seminars for Authority member development"*

2.5.1 It was agreed that a refreshed induction programme would be introduced and this should include a session on "what does being a Fire Authority Member entail?". The Senior Democratic Services Officer is working on a redesigned

Member Induction, as well as a new Member Development programme ready for implementation after the scheduled elections in May 2021.

2.5.2 The Senior Democratic Services Officer is also working with the Constituent Authorities to ensure that there is limited overlap or duplication of induction / Member training. It is the intention, as agreed by the Fire Authority, that the East Sussex Fire Authority induction programme has a clear focus on the necessary fire specific matters.

2.5.3 The annual programme of seminars is planned in advance and Members are notified of the dates as early as possible, and reminded of them on a weekly basis. It was agreed that Group Leaders would strongly encourage attendance at Member Seminars and training sessions. The content of Members Seminars is decided by the Assistant Directors and the sessions include, where possible, items which are deemed to be developmental and provide training as well as those which provide information.

Status: In progress – to become business as usual

2.6 Recommendation 2 – "*Authority cover papers to be framed better to support focused discussion and clear decision-making, with items positioned in relation to strategic and operational objectives"*

2.6.1 It has been agreed that the style of reports and their recommendations could be improved. Efforts have already been made to improve the quality of recommendations and to avoid reports being marked "to note".

2.6.2 Democratic Services are working on an updated report template these will have increased focus on the wider implications of each report. They will also allow officers to include which Strategies they relate to, and ensure that, where applicable, collaboration opportunities will be referenced.

2.6.3 Democratic Services will seek comment from officers on the updated report templates and, for continuity purposes, it is the intention that these will commence in use in the next municipal year.

Status: In progress – implementation in 2021/22

3 OTHER RELATED MATTERS

3.1 The discussion on Authority processes led the MRG to express their support for the introduction of a "Committee Management System" similar to that utilised by both constituent authorities which would encourage paper-free meetings with no hard copy agendas being printed or distributed. The SDSO presented to SLT in December 2018. It was agreed that this should be implemented in the form of Modern.Gov, the same system that is used by all local authorities in the Service area. Throughout 2019/20 Democratic Services officers have been working with ITG and telent to install the system. This is now in regular use for the production of meeting papers, hosting the constitution and recording Member attendance.

3.2 This system enables and supports many of the points raised through the GGI report including:

- Clearer, consistent templates
- Adapted agenda papers
- Paper free
- Subscription to papers for Members
- E-calendars

4 CONCLUSION

4.1 The implementation of a number of the GGI recommendations have already been completed. Democratic Services will continue to progress those that are outstanding, namely that regarding Member Development, Induction and a skills analysis. Once these have been completed or undertaken as appropriate, they will be factored in to the Democratic Services work programme to ensure that they are either updated or scheduled in to be repeated as necessary.

By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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