



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 24 NOVEMBER 2021
Venue: MORECAMBE TOWN HALL
Time: 6.10 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 21st July 2021 (previously circulated).

3. **Items of Urgent Business authorised by the Chair**

4. **Declarations of Interest**

To receive declarations by Councillors of interests in respect of items on this Agenda.

Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **Statement of Accounts Update (Pages 3 - 6)**

Report of the Chief Finance Officer

This report was marked 'to follow' and was published on 19th November 2021.

6. **Internal Audit Plan 2021-2022 (Pages 7 - 17)**

Report of the Head of Internal Audit

This report was marked 'to follow' and was published on 19th November 2021.

7. **Arrangements for the Tendering of External Audit Services 2023/24 - 2027/28** (Pages 18 - 25)

Report of the Chief Finance Officer

This report was marked 'to follow' and was published on 23rd November 2021.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Geoff Knight (Vice-Chair), Abbott Bryning, Darren Clifford, Oliver Robinson, David Whitworth and Peter Yates

(ii) Substitute Membership

Councillors Jason Firth (Substitute), Stuart Morris (Substitute), David Whitaker (Substitute), Jason Wood (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services - email smoorghen@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democracy@lancaster.gov.uk.

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 16th November 2021.

AUDIT COMMITTEE**Statement of Accounts Update Report
24 November 2021****Report of Chief Finance Officer****PURPOSE OF REPORT**

This report seeks to provide Members with an update on the progress of the external audit of the Council's 2019/20 and 2020/21 Financial Statements.

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended

- 1. To note the progress of the audit of the Statement of Accounts for the years ended 31st March 2020 and 31st March 2021.**

1.0 INTRODUCTION

1.1 The Council is required to prepare a Statement of Accounts for each financial year. The accounts must be prepared in accordance with statutory timelines and accounting practices. Since 2010/11 those accounting practices have been based on International Financial Reporting Standards (IFRS) which attempt to facilitate the production of accounts in a standardised and consistent format across the public and private sectors giving greater transparency for stakeholders.

1.2 It is part of the terms of reference of this Committee that it will approve the Council's Statement of Accounts.

2.0 STATEMENT OF ACCOUNTS 2019/20

2.1 The External Auditors presented their Annual Governance Statement (AGS) to this Committee at its 21st July meeting detailing the matters arising during the 2019/20 audit. Whilst there remain some areas of the audit outstanding there are no further issues to report. Once the audit has been concluded management will provide a response to each of the issues raised which will be presented to this Committee alongside an updated Report to Those Charged with Governance setting out the conclusion of the audit..

2.2 External audit have responded directly to the 2 complaints who raised objections to the 2019/20 Statement of Accounts providing each with a statement of reasons for not issuing a Public Interest Report in respect of the matters raised as required by Schedule 7 to the Local Audit and Accountability Act 2014

3.0 STATEMENT OF ACCOUNTS 2020/21

3.1 Although still at the early stages of the audit at the time of writing this report no significant issues have been raised by the External Auditor in relation to the 2020/21 Financial Statements.

Objection to the 2020/21 Financial Statements

3.2 As in previous years the External Auditor has received notification of a formal objections to items contained within the 2020/21 Financial Statements from electors.

3.3 The provisions of the Local Audit and Accountability Act 2014 and National Audit Office Code of Practice affords Local Government Electors, or their representatives an opportunity to make written objections to the External Auditor of an item(s) contain within the Council's accounts.

3.4 All objections raised with the External Auditor must be in writing and copied to the Council's s151 Officer and must state the facts on which the Elector relies, the grounds on which the objection is being made and particulars of

- i) any item of account which is alleged to be contrary to law; and
- ii) any matter in respect of which it is proposed that the auditor could make a public interest report

3.5 The process which the External Auditor must follow when considering objections and possible actions are set out within the National Audit Office's Audit Guidance Note 4 Auditors' Additional Powers and Duties (February 2018).

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2017/01/Auditor-Guidance-Note-04-Auditors-Additional-Powers-and-Duties.pdf>

3.7 Committee Members should be aware that the 2020/21 Audit Fee does not contain an amount for dealing with objections. Although it is hoped the initial review and consideration of the grounds of the objection will be quick, and so any costs will be relatively contained, should the auditor accept the objection the resulting cost of any additional investigation will be borne by the Council and may be significant.

4.0 OPTIONS AND OPTIONS ANALYSIS

4.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

5.0 CONCLUSION

5.1 Members should note the progress and matters arising to date.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):</p>
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<p>No implications directly arising.</p>
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LEGAL IMPLICATIONS

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report. However, Member's should be aware of the potential for addition audit fees that may accrue because of the objection to the financial statements.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

27 August 2020 Draft Statement of Accounts
[Agenda for Audit Committee on Thursday, 27th August 2020, 6.10 p.m. - Lancaster City Council](#)

25 November 2020 Statement of Accounts 2019-20 Update Report
[Agenda for Audit Committee on Wednesday, 25th November 2020, 6.10 p.m. - Lancaster City Council](#)

Contact Officer: Paul Thompson
Telephone: 01524 582603
Email: pthompson@lancaster.gov.uk
Ref:

<p>9 June 2021 Statement of Accounts 2019/20 & 2020/21 Update Agenda for Audit Committee on Wednesday, 9th June 2021, 6.00 p.m. - Lancaster City Council</p>	
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AUDIT COMMITTEE**Draft Internal Audit Plan Priorities 2021/22****24 November 2021****Report of Chief Finance Officer****PURPOSE OF REPORT**

Consideration and approval of the draft Internal Audit plan priorities for the remainder of 2021/22.

This report is public

RECOMMENDATIONS

1. **The Audit Committee consider and approve the draft audit plan priorities for the remainder of 2021/22 and note that further development of the plan is required to ensure an overall audit opinion can be delivered as at the 31 March 2022 as set out in Appendix A.**

1.0 BACKGROUND

- 1.1 Under the Accounts and Audit Regulations 2015 the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards (PSIAs)”. The PSIAs require the Head of Audit & Assurance to develop a risk-based audit plan taking into account the requirement to produce an annual internal audit opinion. The plan must explain how internal audit’s resource requirements have been assessed
- 1.2 The standards also specify that “The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.”
- 1.3 The Plan and the supporting Internal Audit Charter define the scope and the rationale of the approach being followed. They allow Audit & Assurance, independently, to provide assurance to managers, the Chief Executive, the Section 151 Officer and other stakeholders about the effectiveness of controls and the management of risk. They also enable Audit and Assurance to assist this Committee with its responsibility to oversee the effectiveness of governance arrangements in the Council.

2.0 KEY ISSUES

2.1 The Audit Committee will recall that the previous arrangements with Wyre Borough Council for the sharing of the Chief Internal Auditor role ceased on the 31 March 2021. Following the resignation of the Principal Auditor the Council had been without an Internal Audit function since May 2021.

2.2 As a result of Wyre Borough Council's decision, the on-going pandemic, and the need for Internal Audit to be flexible and responsive to emerging risks across the organisation a decision was taken to move to quarterly planning. Details of the approved Q1 Plan Priorities 2021/22 approved 24 March 2020 are at **Appendix B**. Members will appreciate that, given the circumstances, progress against the plan has been limited.

3.0 CURRENT SITUATION

3.1 In October 2021 the Council procured Mersey Internal Audit Agency (MIAA) to enable it to fulfil its statutory obligations until May 2022. Given the time constraints, it was agreed with the s151 Officer that for 2021/22 the risk assessment would focus upon mandated and core assurances and priority areas highlighted within the 2020/21 Annual Governance Statement.

3.2 To deliver the work programme MIAA propose to supply 200 days between December 2021 and May 2022 at a fee of £72,385. Details of the proposed plan are at **Appendix A**

4.0 FINANCIAL CONSIDERATIONS

4.1 The proposed draft audit plan priorities for 2021/22 will be carried out within the overall budget for the internal audit and assurance service. However, further consideration is needed in respect of the provision of the Internal Audit service going forward.

5.0 DETAILS OF CONSULTATION

5.1 The s151 Officer and Chair of the Audit Committee have been consulted in the preparation of the revised draft audit plan for 2021/22.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 The options available are to accept the internal audit plan for 2021/22 which will provide the council and its internal audit function with the basis for continued compliance with established Internal Audit standards, or to recommend alternative wording if necessary. Any deviation from best practice or changes should be agreed by the s151 Officer, the Audit Committee and be reported to the Council's External Auditors.

7.0 CONCLUSION

7.1 Robust and effective planning are key elements in the delivery of an effective internal audit service. The attached audit plan priorities, if successfully delivered, will assist the council in achieving its objectives and provide an overall opinion on the council's control environment. This is a required key source of assurance in the council's Annual Governance Statement.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

The draft audit plan priorities for 2021/22 can be delivered within the overall budget for the internal audit and assurance service. However, further budget considerations will need to be considered once the Section 151 Officer and Audit Committee Chairman have identified the internal audit resources required going forward.

SECTION 151 OFFICER'S COMMENTS

The delivery of the Council's audit strategy and audit plan are fundamental to the assessment of the Council's Internal Control environment. The current proposal will enable the Council to meet its statutory obligations.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

24 March 2021

[Agenda for Audit Committee on Wednesday, 24th March 2021, 4.30 p.m. - Lancaster City Council](#)

Contact Officer: Paul Thompson

Telephone: 01524 582603

E-mail: pthompson@lancaster.gov.uk

Ref:



Lancaster City Council 2021/2022 Internal Audit Plan

Contents

1. Executive Summary
2. Your Plan On A Page
3. Operational Internal Audit Plan 2021/2022



0151 285 4500



miaa.admin@miaa.nhs.uk



www.miaa.nhs.uk



[@MIAANHS](https://twitter.com/MIAANHS)

MIAA Assurance - provision of cost effective assurance (governance, risk and control) Insight (advice and best practice) and foresight (supporting clients on up and coming issues).

These services are delivered in partnership with you to ensure they are personal and responsive, ensuring the best possible customer experience.

1 Executive Summary

Your Audit Service

We recognise the scale at which local government in England has been impacted by COVID-19. Our vision is for MIAA to continue to be a Trusted Advisor through the retention of personalised, local focus and relationships with the added benefits provided by an at scale provider. This is about MIAA continuing to build on its shared services capability to create a comprehensive offering, which provides insight and supports transformational change whilst operating efficiently.

MIAA continue to review and re-engineer our audit service and the way we provide assurance to meet your needs in the changing landscape.

Your Risk Assessment

We have undertaken a risk assessment, which has included a focus on mandated and core assurance areas as a priority and areas highlighted within the Annual Governance Statement. In addition, consideration has also been given to the 21/22 draft priorities identified by the previous Head of Internal Audit.

Your Internal Audit Plan

We have set out in Section 3, the reviews we propose to deliver as a priority for 2021/22 to support the Annual Head of Internal Audit Opinion. This equates to 200 days and the total fee proposed is £72,385.

The proposed plan is flexible and will be subject to ongoing review to ensure it remains focused on key priorities.

Your Team

Your team will be led by Louise Cobain, Engagement Lead and Jayne Wainwright, Engagement Manager. We can confirm sufficient resources, including specialist expertise have been established to deliver your service.



Louise Cobain
Engagement Lead
07795 564 916
Louise.cobain@miaa.nhs.uk

Louise will oversee the framework, as Head of Internal Audit, for the delivery of the risk based audit plan that is designed to provide sufficient assurances to fulfil the requirements of the Head of Internal Audit Opinion of the effectiveness of internal control.

Louise will be responsible for leading and managing the MIAA audit team who will be delivering your plan and establishing good working relationships with senior and operational leads. Louise will act as the single point of contact for the service ensuring that staff are deployed according to their relevant knowledge, skills and experience.



Jayne Wainwright
Engagement Lead
07500 782 951
Jayne.wainwright@miaa.nhs.uk

Jayne will be responsible for operationally leading the MIAA internal audit team to ensure successful delivery of internal audit reviews.

2 Your plan on a Page

Planning Approach

Given the constraints on time, it has been agreed with the Section 151 Officer that for 2021/22 the risk assessment has a focused upon mandated and core assurances and priority areas highlighted within the 2020/21 Annual Governance Statement.

As part of the planning process, we have also:

- assessed the 21/22 draft priorities identified by the Council’s previous Head of Internal Audit
- undertaken focused assurance mapping,
- utilised MIAA’s client risk database to inform planning.
- reviewed coverage of Critical Business Systems to support the organisation’s objectives
- ensured provision of sufficient resources and expertise.
- confirmed compliance with Public Sector Internal Audit Standards (PSIAS).

Your Plan

The outcome of your risk assessment is summarised below:

CORE ASSURANCES

- Risk Management: Strategic & Operational Risk Management
- Main Accounting System
- P2P System Assurance
- Treasury Management
- Collection of Income and Reconciliations
- Housing Benefits
- Council Tax
- Business Rates (NNDR)
- Grants
- Property Investment Strategy / Capital Schemes
- Efficiency Programme Delivery
- Effectiveness of HR Arrangements
- Conflicts of Interest
- Information Governance

HEAD OF AUDIT ROLE

- Planning, Reporting and Audit Committee
- Year End Opinion
- Effectiveness Review

Follow Up and Contingency

Outcomes

Head of Internal Audit Opinion to inform the AGS

Assignment assurance levels

Recommendations, advice, and guidance to enhance the control environment

Insights through briefings, thought leadership events and benchmarking.

3 Operational Internal Audit Plan 2021/2022

Review & Scope	Risk Register Score	Planned Delivery	Assignment days
Core Assurances			
Risk Management – Evaluation of the risk management framework, incorporating both: <ul style="list-style-type: none"> Strategic Risk Management Operational Risk Management 	PSIAS Requirement	Qtr 1	10 10
Key Financial Controls: To provide assurance that the most significant key controls in the areas detailed in the scope below are appropriately designed and operating effectively in practice; <ul style="list-style-type: none"> Main Accounting System P2P System Assurance Treasury Management Collection of Income and Reconciliations 	9	Qtr 4 / Qtr 1 tbc	10 10 10 10
Housing Benefits – To ensure the system for benefit payments aligns to the appropriate regulations, are processed timely, supported by detailed evidence, and recouped when necessary.	Core Assurance	Qtr 1	10
Council Tax - To evaluate the effectiveness of the processes in place for Council Tax collection.	Core Assurance	Qtr 1	10
National Non-Domestic Rates (NNDR) - To evaluate the effectiveness of the processes in place for NNDR collection.	Core Assurance	Qtr 1	10
Grants - To ensure that the monies claimed can be supported by documentary evidence and the have followed due process.	Core Assurance	Qtr 1	10
Property Investment Strategy / Capital Schemes – Assurance is required regarding schemes / acquisitions are planned, approved and executed in line with policies, regulation and governance requirements.	12	Qtr 1	12
Efficiency Programme Delivery – To assesses the effectiveness of the arrangements– in place for the monitoring and delivery of the Efficiency Programme.	9	Qtr 1	12
Effectiveness of HR Arrangements –This review will focus specifically on the progress in relation to the recommendations made within the 2020 HR Assurance report.	12	Qtr 3	15
Conflicts of Interest and Gifts & Hospitality - To evaluate the design and operating effectiveness of the arrangements that the organisation has in place to manage conflicts of interest and gifts and hospitality.	Core Assurance	Qtr 1	10
Information Governance - To assess the robustness of the information governance framework, with a focus on the adequacy of policies and systems. Note: specific areas of focus tbc.	Core Assurance	Qtr 1	15

Review & Scope	Risk Register Score	Planned Delivery	Assignment days
FOLLOW UP & CONTINGENCY			
Follow Up of Prior Year Recommendations - This will focus upon the critical /high priority recommendations in the following areas: - Procurement & Contract Management - Data Protection - Insurance - Legal Fees, Charges & Debt Recovery	PSIAS Requirement	Qtr 4 / Qtr 1 tbc	15
Contingency	PSIAS Requirement	As required	2
HEAD OF AUDIT ROLE: PLANNING / MANAGEMENT / REPORTING			
Planning, Reporting & Audit Committee	-PSIAS Requirement	Qtr 3 / 4 / 1	12
Head of Internal Audit Opinion & Annual Report	PSIAS Requirement	Qtr 1	5
Effectiveness Review	Risk Assessment	Qtr 1	2

DELIVERY OF THE INTERNAL AUDIT PLAN

- There will be ongoing assessment of the plan and the plan re-prioritised as appropriate, subject to approval from the s151 Officer and Audit Committee.
- We will confirm if audits are to be conducted remotely or require onsite presence.
- We will liaise with you to discuss the potential postponement any planned audits of areas providing critical services (or require input from key individuals)
- Where appropriate, we will seek agreement with you to extend due dates for the implementation of actions based on new risks/priorities.
- We will continue to fully communicate with the Audit Committee to keep them apprised as things develop.
- We will continue to discuss with the organisation the impact of Covid-19 on its 1st and 2nd lines of defence and the potential internal control implications.
- All our work will continue to be delivered in full compliance with the Public Sector Internal Audit Standards (PSIAS).
- Whilst organisations are moving into the recovery phase we fully appreciate that this is still a fluid position and we will therefore be communicating with you on a regular basis to keep the focus on the delivery of your Annual Audit Opinion



DRAFT AUDIT PLAN PRIORITIES - 2021/22

This plan will be reviewed on a quarterly basis following examination of assurance mapping declarations, risk registers and management requests/referrals

APPENDIX B

Category of Work	Audit Title	Detailed Rational	Audit Type	Days allocated based on 1FTE Auditor (220 days p/a)	Links to Risk Registers / MTFS / Corporate Plan Priorities/Projects
General / Meetings / Non-Chargeable					
Other Internal Audit Responsibilities	Internal Audit Management / Planning / Audit committee Advice and assistance Qualification training / professional development	These activities are carried out by the Internal Audit and Assurance Manager (Chief Internal Auditor). Zero days have been allocated given this position will be vacant from the 1 April 2021.	N/A	0	N/A
Quarter 1 Priorities					
2021/22 Audit Plan Work	Property Investment Strategy/Capital Schemes	Following an increase in capital schemes/acquisitions across the council, assurance is needed that such schemes/acquisitions are planned, approved and executed, in line with policies, regulation and governance requirements.	RB	5	MTFS/Strategic Risk Register (SR1 & 2)
2021/22 Audit Plan Work	P2P Project Assurance	Following the implementation of the P2P project, assurances are needed that the system is working as intended and outcomes are as expected. Therefore end to end testing will be carried out to ensure the system is being utilised consistently and identify/address any anomalies where it has not been adopted consistently, activities are taking place outside the system, or the system is only being partly used.	RB	10	Strategic Risk Register (SR8)
Other Internal Audit Responsibilities	Risk Management	Ongoing facilitation and roll out of a robust Risk Management framework. This will include the delivery and administration of strategic and operational risk workshops the results of which will assist with the prioritisation of internal audit work for the coming year.	S	20	Corporate priority/operational risk
Other Internal Audit Responsibilities	Preparation of the 2020/21 Annual Governance Statement and continuous monitoring of the minor issues action plan	Whilst in previous years the Chief Internal Audit Manager has assisted in identifying and documenting evidence to ensure compliance with CIPFA's Delivering Good Governance framework, given the limited resources within the Internal Audit Team and the absence of the Chief Internal Audit Manager from the 1 April 2021, no days have been allocated this year to complete this piece of work and alternative arrangements for its completion will need to be made.	M	0	Statutory requirement in line with the Accounts and Audit Regulations 2015
Other Internal Audit Responsibilities	Assurance mapping exercise	To assist with the formulation of the audit plan and ensure resources are maximised an assurance mapping exercise will be completed with each council service to identify other sources of assurance received. The results of this exercise will focus the priorities of internal audit for the coming year.	M	5	Compliance with CIPFA's Delivering Good Governance Framework
Follow-up Audit Plan Work	Procurement and Contract Management	Original review completed September 2018 and awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, follow-ups are required until substantial assurance has been achieved (it should be noted that this follow-up was delayed pending receipt of updated national procurement guidance and more recently the ongoing pandemic).	RB	5	Operational Risk
Follow-up Audit Plan Work	Data Protection - Policy and Process Review	Original review completed by Merseyside Internal Audit Service in May 2020 and was awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, follow-ups are required until substantial assurance has been achieved (it should be noted that there has been a slight delay in following-up this piece of work due to the ongoing pandemic).	RB	3	Strategic Risk
Follow-up Audit Plan Work	Insurance	Original review completed in November 2019 and was awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, this piece of work was followed-up in July 2020 and as the assurance opinion remained unchanged a further follow-up will be carried in March 2021. If the assurance opinion is not raised as a result of this second follow-up it will be escalated to the Manager/Service Director/Audit Committee.	RB	2	Operational Risk
Other Internal Audit Responsibilities	NFI Covid-19 Grants Post Assurance Testing	Following business grant payments totalling in excess of £36 million, the council has a mandatory obligation to the Cabinet Office to carry out post assurance work to identify any fraudulent payments.	M	5	External Requirement
Total				55	
Other Upcoming Priorities (Q2-4) To be reviewed and approved following completion of assurance mapping, implementation of risk registers and consideration of resources going forward					
Other Internal Audit Responsibilities	Payroll e-budgeting	Internal Audit will continue to be involved on this project group until the project is completed and the e-budgeting tool is fully operational. Assurance will be given prior to the new system being used for the next budget setting exercise (2022/23).	S	Qtr2	MTFS
Other Internal Audit Responsibilities	National Fraud Initiative (NFI) - Administration of annual Single Person Discount (SPD) Data Matching exercise	Internal Audit will collate and upload of the 2021/22 SPD data in order to comply with the requirements of the mandatory annual NFI data matching exercise	M	Fixed Qtr. 3	Operational Risk
Follow-up Audit Plan Work	Legal fees and Charges and Debt Recovery	In accordance with the Audit Charter a follow up review will be required if the ongoing audit (from the 2020/21 audit plan) results in an overall limited assurance opinion being awarded.	RB	Qtr. 3/4	Operational Risk
2021/22 Audit Plan Work	Effectiveness of new HR arrangements	Following ongoing implementation of the HR Assurance action plan, work is to be carried out to provide assurance on the effectiveness of any new working arrangements, policy and procedural changes and overall governance arrangements.	RB	Qtr. 3/4	Operational Risk
2021/22 Audit Plan Work	Climate Change / Carbon Neutral work	Recognising the councils commitment to achieving carbon neutral status by 2030 and the increasing corporate projects, Internal Audit will need to provide assurances around these projects however a steer from the Executive Team will be required.	RB	TBC	MTFS/Corporate Plan/Strategic Risk Register (SR6)
2021/22 Audit Plan Work	Debtors	Internal Audit have not given any assurances on this key financial system since 2016 (substantial assurance provided). Given the requirement to keep such systems under cyclical review and the recent changes to personnel, procedures and processes a review is required in this area prior to the year end. Part of rolling programme.	RB/KFS	TBC	MTFS/Operational risk/part of rolling programme
2021/22 Audit Plan Work	Council Resilience	Following the council declaring a national emergency in 2019, a number of significant changes have been made to the council's working practices. Assurances are therefore required to ensure that the council and its services can operate effectively, and that adequate and effective procedures are appropriately documented to ensure that the council can respond and recover appropriately. This piece of work will include a review of the council's ICT disaster recovery plan, the council's emergency response plan and individual service business continuity arrangements.	RB	TBC	Strategic Risk/Operational Risk
2021/22 Audit Plan Work	CCTV Compliance	Following changes to the Compliance with the Surveillance Camera Code of Practice, assurances are required to confirm the council is compliant. In addition work is also needed to ensure that Research / City Centre data collection is conducted in line with guidance.	M	TBC	Operational Risk
2021/22 Audit Plan Work	Use of social Media for investigatory work.	Following the update to the RIPA Policy in November 2019, assurance is needed to confirm that officers are complying with policy, in particular around the use of social media in investigations.	M	TBC	Operational Risk/Annual Governance Action Plan
2021/22 Audit Plan Work	Compliance with the Constitution (in particular Scheme of Delegation)	Following a comprehensive constitutional review in 2019, and risks identified during the year in other service areas, assurance work is needed to ensure adequate and effective governance arrangements are in place, aligned with council policies and procedures, ultimately ensuring that the Constitution is fit for purpose.	RB	TBC	Strategic/Operational Risk/Annual Governance Action Plan
2021/22 Audit Plan Work	Council Time Recording Systems (Flexi, annual leave, sickness recording and monitoring)	Internal Audit observations have identified corporate inconsistencies in the recording of annual leave, flexi and sickness absence throughout the ongoing pandemic. An audit may therefore be beneficial following reestablishment/changes to the above systems/processes once procedures/processes are re-instated.	RB	TBC	Operational Risk
2021/22 Audit Plan Work	Revenues and Benefits Shared Service Assurance Work	In agreement with the Head of the Revenues and Benefits Shared Service, areas where assurances are required will be agreed in accordance with the Shared Service Level Agreement.	RB/KFS	TBC	Operational Risk
Other Internal Audit Responsibilities	Service Heads/Senior Managers - Service and support work	During the course of the year Internal Audit will liaise with newly appointed / promoted service heads or senior managers to ensure any areas of responsibility (line management, connotationally etc), are known and fully understood and to build an effective working relationship.	S	Ongoing	Operational Risk
R = Referral/request KFS = Key Financial System M = Mandatory RB = Risk Based S = Support work					

AUDIT COMMITTEE**Re Tendering of External Audit Services
24 November 2021****Report of Chief Finance Officer****PURPOSE OF REPORT**

The purpose of this report is to inform the Committee of an invitation from Public Sector Audit Appointments (PSAA) Ltd to join the national scheme for the procurement of external audit services with effect from the financial year 2023/24.

This report is public.

RECOMMENDATION**The Audit Committee is recommended**

- to note the requirement for the Council to appoint an External Auditor for the audit of the Statement of Accounts for 2023/24 to 2027/28, no later than December 2022;
- to note the requirement to notify PSAA Ltd of the Council's decision as to whether to opt-in to the national procurement process no later than 11th March 2022;
- to request that a further report on this matter is presented to this Committee in January 2022 (TBC) with a view to making a recommendation to Council in 23rd February 2022.

1.0 BACKGROUND

1.1 The Local Audit and Accountability Act 2014 (the Act) abolished the Audit Commission and repealed the Audit Commission Act 1998. Its aim, as stated in MHCLG guidance, is to give local bodies the freedom to appoint their own External Auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence.

1.2 The Act provides for the creation of a locally led audit regime providing local authorities with greater flexibility over the procurement of their external audit service. In essence, Councils can:-

- undertake their own procurement and appointment of an External Auditor – this would require the Council to establish an Audit Panel comprising Elected and Independent Members who would be consulted on the selection and appointment of an Auditor.
- work collaboratively with other local authorities on a procurement exercise for an External Auditor – this is the same as set out above but with the

procurement exercise undertaken by a group of local authorities who may use a shared Audit Panel.

- opt in to a Sector-led procurement – this is a national procurement exercise whereby a designated body undertakes the procurement and appointment of an External Auditor on behalf of those Councils that choose to opt-in to this process.

1.3 In response, the Local Government Association (LGA) established PSAA as a not-for-profit company to act as an Appointing Body for principal Local Government and police bodies to undertake the procurement, appointment and setting of the scale of fees payable for those bodies that opt into the national scheme. Further information on PSAA and the role they perform in auditor appointments is available on their website. <https://www.psaa.co.uk/about-us/appointing-person-information/>

2.0 CURRENT POSITION

2.1 The Council currently opts into the national arrangement to secure External Audit services with the current contract due to expire in 2022/23 following the conclusion of the audit of the Council's Statement of Accounts and arrangements for Value for Money.

2.2 The LGA has advised that this arrangement is now due for re-tender and PSAA is currently undertaking a procurement exercise for the next appointing period, covering audits for 2023/24 to 2027/28. The deadline for responding to the invitation is 11th March 2022 and, in accordance with the Act, the decision to opt-in must be taken by the Full Council.

2.3 Should the Council chose to opt out of the current arrangement it must have appointed an External Auditor for the audit of the Council's Statement of Accounts for 2023/24 onwards before the end of December 2022.

2.4 The LGA wrote to all Councils in September setting out its support for the PSAA process along with information for Those Charged with Governance and a series of frequently asked questions. Details of this correspondence is provided at **Appendix A**

3.0 PROPOSAL

3.1 It is proposed that this matter is considered in more detail by the Audit Committee in January 2022 (TBC) with a view to making a recommendation to Council on 22nd February. Given the volatility in the audit environment as a result of a number of factors including, changes in the Code of Audit Practice, concerns over the resilience of local authorities and the broader implications of the Redmond Review and the Government's response to that – all of which have, in some way, led to rising audit fees – a number of Lancashire and North West Councils are considering the merits of the alternative procurement routes set out above as a way of having a greater degree of control over what they pay for External Audit.

3.2 Between now and then, there will be an opportunity to see whether there is any appetite amongst other Lancashire and North West Councils to consider alternatives to the PSAA proposal and what the advantages and disadvantages of these alternatives might be. This would form the basis of the report to the Committee at a yet to be arranged meeting in January 2022.

4.0 OPTIONS AND OPTIONS ANALYSIS

4.1 The options facing the Committee are to either to refresh the current arrangements and opt into the national arrangement and the proposed re-tendering at this stage, or to allow the Chief Finance Officer to engage with other Lancashire and North West Councils and report back to this Committee alternatives to the PSAA proposals.

5.0 DETAILS OF CONSULTATION

5.1 The options presented in this report have been discussed with the Chief Executive and Portfolio holder for Finance and Resources

6.0 CONCLUSION

6.1 The appointment of External Auditors is necessary to comply with the Council's statutory duty to appoint such Auditors under s7 of the Local Audit and Accountability Act 2014.

**CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):**

No implications directly arising.

LEGAL IMPLICATIONS

There are no legal implication flowing directly from this report.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report in his capacity as Chief Finance Officer

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Audit Committee 25th November 2020

<https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=316&MId=7581&Version=4>

Contact Officer: Paul Thompson

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref:

From the Chairman of the Association
Cllr James Jamieson



**To: Mayors/Leaders/Chief Executives/Chief Finance Officers
of English Principal Councils**

23 September 2021

Retender of External Audit Contracts

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11th March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan Finch (alan.finch@local.gov.uk) if you have any issues you would like to raise.

Yours sincerely

A handwritten signature in black ink, appearing to read "James Jamieson".

Cllr James Jamieson
Chairman

cc: Chief Executive
Chief Finance Officer

RETENDER OF EXTERNAL AUDIT CONTRACTS

Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
 - The service being procured is defined by statute and by accounting and auditing codes

- Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
- Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
 - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
 - PSAA has commissioned high quality research to understand the nature of the audit market.
 - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) (alan.finch@local.gov.uk).

PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24

FREQUENTLY ASKED QUESTIONS

“Were prices set too low in the current contract?”

It is clear that firms did submit bids that reflected what seemed at the time to be very stable market conditions. Unfortunately, a series of financial collapses in the private sector have since created a very different climate and resulted in a whole series of new regulatory pressures. It is very likely that firms thought they could make savings as a result of the new timetable, essentially finishing the accounts audits by the end of July each year. Of course, that is not what has happened.

The Government opened up the market principally on the argument that costs would reduce, and views were mixed in the sector when the first contract was being let. Some councils wanted more savings and some were worried about reduced standards.

“Has the current contract helped cause these issues?”

Since the current contract is based around the Code of Audit Practice and the local government accounting code, this is unlikely. The first year of the new contract coincided with the introduction of new standards and with the emergence of some difficult audit issues such as the [McCloud judgement](#) (a legal case which affected the valuation of pension liabilities). The second year was affected by COVID-19. This laid bare the lack of capacity in the supplier side of the market and led to considerable delays. It is hard to see how the contract could have pre-empted this, but now we are clearer about the level of uncertainty in the system, the next contract can adjust for it.

“If we let our own contract, could we have more influence over auditors?”

No. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator’s expectations or face action under the regulatory framework.

As far as delays in audits is concerned, auditors are required to allocate resources according to risk and councils that procure for themselves will find themselves in the same queue as those within the national arrangement.

“If we let our own contract, can we get the auditors to prioritise our audit over others?”

Very unlikely. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. It is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

“Didn’t we used to get more from our auditors?”

Yes we did. For example, auditors were often prepared to provide training to audit committees on a pro-bono basis. The fact that they used to be with us for most of the year meant officers could develop professional working relationships with auditors and they understood us better, within the boundaries required of their independent status. Auditors no longer have the capacity to do extra work and the

light shone on audit independence in other sectors of the economy has reinforced the rules on the way auditors and councils work together.

“Under the national framework we have had to negotiate our own fee variations. Will that continue to be the case?”

Unfortunately, virtually all councils have had to engage in discussions with auditors about fee variations linked to new regulatory requirements and, of course, the challenges of COVID-19. SAA has worked hard with MHCLG to enable the recent consultation on changes to the fee setting regime, and the resulting regulatory change will bring scope for more issues to be settled at a national level in future.

“Can we band together in joint procurements to get most of the benefits of not going it alone?”

We understand that this is lawful. However, joint procurement partners would not be part of PSAA’s efforts on behalf of the sector to increase the number of firms competing in the market, which will therefore be less likely to succeed.

At best, joint procurement spreads the pain of procuring over a larger number of councils and at worst it introduces a new layer of bureaucracy, because someone is going to have to take the lead and bring all the members of the consortium along. It’s not altogether clear to us why a joint procurement would be better than the national contract, especially as the consortium would then have to manage the contract throughout its life (for example, the implications of changes of audit scope).