



TO THE CHAIRMAN AND MEMBERS OF THE STANDARDS AND AUDIT COMMITTEE

You are hereby summoned to attend a meeting of the Standards and Audit Committee to be held on Thursday, 25 November 2021 at 7.00 pm in the Council Chamber, Civic Offices, Gloucester Square, Woking, Surrey GU21 6YL.

The agenda for the meeting is set out below.

JULIE FISHER
Chief Executive

NOTE: Filming Council Meetings

Please note the meeting will be filmed and will be broadcast live and subsequently as an archive on the Council's website (www.woking.gov.uk). The images and sound recording will also be used for training purposes within the Council. Generally the public seating areas are not filmed. However by entering the meeting room and using the public seating area, you are consenting to being filmed.

AGENDA

PART I - PRESS AND PUBLIC PRESENT

1. Minutes

To approve the minutes of the meeting of the Standards and Audit Committee held on 16 September 2021 as published.

2. Apologies for Absence

To receive any apologies for absence.

3. Declarations of Interest (Pages 5 - 6)

- (i) To receive declarations of interest from Members and Officers in respect of any item to be considered at the meeting.
- (ii) In accordance with the Officer Employment Procedure Rules, the Director of Legal and Democratic Services, Joanne McIntosh, declares a disclosable personal interest (non-pecuniary) interest in any items concerning the companies of which she is a Council-appointed director. The companies are listed in the attached schedule. The interests are such that Mrs McIntosh may advise the Committee on those items.
- (iii) In accordance with the Officer Procedure Rules, the Finance Director, Leigh Clarke, declares a disclosable personal interest (pecuniary) in any items including reference to Woking Football Club, arising from her husband holding a small shareholding in the

Club. The interests are such that Mrs Clarke may advise the Committee on those items.

4. Urgent Business

To consider any business that the Chairman rules may be dealt with under Section 100B(4) of the Local Government Act 1972.

Matters for Recommendation

5. Review of Code of Conduct Arrangements STA21-020 (Pages 7 - 38)

Reporting Person – Joanne McIntosh

6. Public Sector Audit Appointments STA21-021 (Pages 39 - 94)

Reporting Person – Leigh Clarke

Matters for Determination

7. Update on External Audit STA21-017 (Pages 95 - 100)

Reporting Person – Steve Bladen (BDO) / Leigh Clarke

8. Internal Audit Progress Report STA21-018 (Pages 101 - 116)

Reporting Person – Graeme Clarke / Juan Fosco (Mazars)

9. Internal Audit Charter STA21-019 (Pages 117 - 130)

Reporting Person – Graeme Clarke / Juan Fosco (Mazars)

AGENDA ENDS

Date Published - 17 November 2021

For further information regarding this agenda and arrangements for the meeting, please contact Doug Davern on 01483 743018 or email doug.davern@woking.gov.uk



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Schedule Referred to in Declaration of Interests

Council-appointed directorships

Joanne McIntosh, Director of Legal and Democratic Services

Thameswey Limited

Thameswey Developments Limited

Thameswey Housing Limited

Thameswey Guest Houses Limited

STANDARDS AND AUDIT COMMITTEE – 25 NOVEMBER 2021

REVIEW OF CODE OF CONDUCT ARRANGEMENTS

Executive Summary

A review of the Council's arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011 has been undertaken by the Monitoring Officer to establish whether the procedures are fit for purpose and effective. The Monitoring Officer has consulted with Members, the Chairman of Standards and Audit Committee and Independent Person. This report outlines the proposed changes to the arrangements and recommends them for adoption.

Recommendations

The Committee is requested to:

RECOMMEND TO COUNCIL That

- (i) **the arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011 be adopted; and**
- (ii) **the Council's constitution be updated to include the arrangements.**

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers:	None.
Reporting Person:	Joanne McIntosh, Director of Legal and Democratic Services Email: joanne.mcintosh@woking.gov.uk, Extn: 3038
Contact Person:	Joanne McIntosh, Director of Legal and Democratic Services Email: joanne.mcintosh@woking.gov.uk, Extn: 3038
Date Published:	17 November 2021

1.0 Introduction

- 1.1 Under the Localism Act 2011, the Council must have arrangements under which allegations that a Member has failed to comply with the Members' Code of Conduct can be investigated, and decisions made on such allegations.
- 1.2 At its meeting on 8 July 2021, the Audit and Standards Committee requested that the Monitoring Officer review the Council's Arrangements for dealing with Standards Allegations under the Localism Act 2011.
- 1.3 At its meeting of 16 September the Standards and Audit Committee received an update report. The Monitoring Officer has now undertaken a wholesale review of the arrangements to establish whether the procedures are fit for purpose, effective and follow best practice. The Monitoring Officer has consulted with Members throughout this process and updated the Council's arrangements.

2.0 Review of the Council's Arrangements

- 2.1 The Council's arrangements for dealing with Standards Allegations under the Localism Act 2011 can be found on page 207 of the Council's Constitution. These arrangements outline the Council's processes and procedure under which allegations that a Member or co-opted Member has failed to comply with the Council's Code of Conduct are considered.
- 2.2 It is important that those subject to the arrangements are consulted on them and involved in the development of any new arrangements. Members were invited to provide individual feedback in respect of the current arrangements, their experience of them and any proposed changes they would like to see moving forward. Members were also invited to attend a workshop to discuss the same. The Chairman of the Standards and Audit Committee and the Independent Person were also consulted.

2.3 Consultation

- 2.4 Several themes emerged from the consultation with Members, the Independent Person and the Chairman of the Standards and Audit Committee. The first being that complaints should be dealt with in a timely manner. It is recognised that a prompt investigation and resolution is beneficial to all parties involved in the process. Whilst, the current arrangements have timescales included within them, these have been expanded upon in the new arrangements with clear timescales being given at each step of the process. Further, to this the new arrangements state that the complaints shall

"The investigation shall be carried out promptly, with the expectation that all investigations, resolution and hearings of the Sub-Committee will be completed within a maximum period of four months. All those involved in the complaint should do their utmost to ensure that this can happen."

- 2.5 Importantly, should there be any delay in any part of the process the Complainant and Subject Member shall be kept informed and provided with an explanation as to why there has been a delay.
- 2.6 Throughout the consultation, discussions turned to the provision of procedural and emotional support for the Complainant and Subject Member throughout the process. In these discussions, it was highlighted that support should be available in two distinct areas; as a guide to assist the Complainant and Subject Member in respect of the procedural elements of the process and as support to the Complainant and Subject Member throughout what may be a stressful process. It was noted that given the Monitoring Officer's role in the process, independent support would be preferable. The Council's Deputy Monitoring Officer and Human

Review of Code of Conduct Arrangements

Resources Department shall be available to provide any such support and assistance needed throughout this process.

- 2.7 Members have requested clarity around the process. Members are often not familiar with the detailed process of the arrangements until they are involved within them. The process often feels legalistic and not “user friendly”. The process has for the most part remained the same but in response to the feedback, the arrangements have been expanded upon to provide clarity and detail at each step of the process. Notably, Appendix 2 to the arrangements provides detail of the assessment criteria applied in the decision making process and Appendix 3 to the arrangements outlines the procedure at Standards Hearing Sub-Committee. It is proposed that training in respect of the arrangements shall be provided to Members at the same time they received their annual Code of Conduct training.

3.0 New Arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011

- 3.1 Members will find at Appendix 1 to this report, the proposed new arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011, together with Appendix 1 to the arrangements; the Complaint Form, Appendix 2 to the arrangements; the Assessment of the complaint and Appendix 3; Standards Hearing Sub-Committee guidance. A flowchart has been attached to this report at Appendix 2 to assist Members with the process.
- 3.2 Members are requested to recommend to Council that the New Arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011 are adopted and the Council’s constitution be updated accordingly.

4.0 Future Review

- 4.1 An area for future consideration is the structure and make up of our Standards Hearing Sub-Committee. There is a small pool of Members from which the Standards Hearing Sub-Committee may be called. This can at times prove difficult to ensure a proportionately balanced Sub-Committee of Members with no prior knowledge or involvement in the matter at short notice. To date, this has always been achieved but it is a matter for further exploration and consideration.

5.0 Corporate Strategy

It is important to ensure that high standards of probity and ethical framework are at the heart of corporate governance of the authority and to ensure transparency and accountability.

6.0 Implications

Finance and Risk

- 6.1 There are no specific implications outlined in the report.

Equalities and Human Resources

There are no specific implications in respect of this report. It should be noted that should a complainant be unable to make a complainant in writing a reasonable adjustment shall be made to allow the complainant to make a complaint should they wish to do so.

Legal

- 6.5 Elected members are required to act in accordance with the Council’s Code of Conduct and the Council must have appropriate arrangements in place, in accordance with the Localism Act 2011.

7.0 Engagement and Consultation

7.1 Members have been invited to attend a workshop to provide feedback on the current regime and proposed areas for change.

REPORT ENDS

Arrangements for dealing with Allegations of Misconduct by Councillors under the Localism Act 2011

1. Context

- 1.1. It is expected that elected members of Woking Borough Council (the Council) uphold the highest standards of public office. However, in the event that there is a complaint, it is important that this is handled effectively to ensure public confidence is maintained.
- 1.2. These arrangements describe how the public can make a complaint that a Member of the Council has failed to comply with the Council's Member Code of Conduct, and sets out how the Council will deal with allegations of a failure to comply with the Code of Conduct.
- 1.3. Under Sections 28(6) and (7) of the Localism Act 2011, the Council must have "arrangements" under which allegations that a Member, or co-opted Member, has failed to comply with the Council's Code of Conduct can be investigated, and decisions made on such allegations. Such arrangements must provide for the Council to appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on an allegation which it has decided shall be investigated. The Independent Person's views can also be sought by the Council at any other stage, or by a Member against whom an allegation has been made.
- 1.4. The terms capitalised in these arrangements are as defined within the text or at paragraph 2, Interpretation, below.

2. Interpretation

- 2.1. 'Code of Conduct' means the code of conduct for councillors and co-opted members adopted by the Council.
- 2.2. 'Complainant' means a person who has submitted a complaint in accordance with these Arrangements alleging that a Subject Member has breached the Code of Conduct.
- 2.3. 'Subject Member' means an elected or co-opted member of the Council against whom a complaint has been made alleging a breach of the Code of Conduct.
- 2.4. 'Independent Person' means a person or persons appointed by the Council under section 28(7) of the Localism Act 2011 who has the functions set out in section 28(7) of the Localism Act 2011.
- 2.5. 'Independent Member' means a co-opted person who is not a Councillor or Officer of the Council who sits on the Standards Hearing Sub Committee in an advisory capacity but who is not entitled to vote.
- 2.6. 'Informal Resolution' means the procedure described in these Arrangements at paragraph 7.

- 2.7. 'Investigating Officer' means the person appointed by the Monitoring Officer to undertake a formal investigation of a complaint alleging a breach of the Code of Conduct by a Subject Member. The Investigating Officer may be another senior officer of the Council, an officer of another authority or an external investigator.
- 2.8. 'Monitoring Officer' means a statutory officer appointed by the Council under the Local Government and Housing Act 1989 ss 5 and 5A who has a role in the assessment of complaints and the promotion and maintenance of high standards of conduct within local authorities and his or her deputy or representative.
- 2.9. The Standards Hearing Sub-Committee is a sub-committee of the Council's Standards and Audit Committee. The Independent Person is invited to attend all meetings of the Standards Hearings Sub-Committee and his/her views are sought and taken into consideration before it takes any decision on whether the Subject Member's conduct constitutes a failure to comply with the Code of Conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.

3. The Code of Conduct

- 3.1. The Council has adopted a Code of Conduct for Members. This is available for inspection on the Council's website (www.woking.gov.uk) and on request from the Council's Monitoring Officer.

4. Making a Complaint

- 4.1. All complaints must be made in writing and should be on the official complaint form. Completion of the complaint form will enable the Council to process the complaint efficiently and transparently. A copy of the complaint form can be found at Appendix 1. The complaint form can be posted or e-mailed to the Council's Monitoring Officer whose contact details are:

Joanne McIntosh
The Monitoring Officer,
Woking Borough Council,
Civic Offices,
Gloucester Square,
Woking,
Surrey,
GU21 6YL

Joanne.mcintosh@woking.gov.uk

- 4.2. Complainants who find difficulty in making their complaint in writing (e.g. because of a disability) will be offered assistance. A request for assistance should be made in the first instance by contacting the Monitoring Officer.

5. Anonymous Complaints

- 5.1. Anonymous complaints will not normally be investigated, and will only be accepted in exceptional circumstances where the Monitoring Officer (in consultation with the Independent Person) concludes that the balance of the public interest lies in doing so, and the fairness of the procedure is maintained.
- 5.2. As a matter of fairness and natural justice and in order to preserve the probative value of any evidence given, the Subject Member will usually be told who has complained about them and receive details of the complaint. However, in exceptional circumstances, the Monitoring Officer may withhold the identity of a Complainant or witness where the Monitoring Officer is satisfied that the Complainant has reasonable grounds for believing that they, or any witness relevant to the complaint, may be at risk of serious harm, or his or her employment may be jeopardised if their identity is disclosed, or where there are medical risks (supported by medical evidence) associated with the Complainant's identity being disclosed.
- 5.3. If the Monitoring Officer decides to refuse the Complainant's request for confidentiality, he or she will offer the Complainant the option to withdraw their complaint. The Complainant will be notified of the Monitoring Officer's decision with reasons given by the Monitoring Officer.
- 5.4. There is no right of appeal against the Monitoring Officer's decision to refuse the Complainant's request for confidentiality.
- 5.5. If the Complainant's request for confidentiality is upheld, the Monitoring Officer will inform the Complainant that confidentiality may not be able to be maintained dependent upon how matters progress. If confidentiality cannot be maintained the Complainant will be informed and will have the option to withdraw the complaint.

6. Receipt of a Complaint

- 6.1. The Monitoring Officer will acknowledge receipt of a complaint within five working days of receiving it, and will keep the Complainant informed of the progress of their complaint.
- 6.2. The Monitoring Officer will, within five working days of receipt, normally advise the Subject Member that a complaint has been received (together with the name and address of the complainant and brief details of the complaint). The Member shall not make any representations to the Monitoring Officer at this stage of the process.
- 6.3. The Monitoring Officer will, within the same timescale, normally advise the Leader of the Council, the Member's Group Leader and the Chief Executive of the receipt of the complaint (together with the name and address of the complainant and brief details of the complaint). The Leader of the Council, the Member's Group Leader and Chief Executive shall not make any representations to the Monitoring Officer at any stage of the process.

- 6.4. The Monitoring Officer may decide not to advise the Subject Member, Leader of the Council, Member's Group Leader or Chief Executive of the receipt of the complaint if this might prejudice a subsequent investigation. The Monitoring Officer shall have the discretion to notify other persons of the receipt of the complaint as he/she considers appropriate. The Monitoring Officer shall inform the Complainant and Subject Member should he/she exercise discretion.

7. Assessment of Complaint

- 7.1. The Monitoring Officer will assess every complaint received and, after consultation with the Independent Person, make a decision as to the most appropriate action to be taken in relations to the complaint. This decision will normally be taken within ten working days acknowledgement of receipt of the complaint. Details of how the Monitoring Officer will assess the complaint can be found at Appendix 2.

- 7.2. The following decisions can be taken by the Monitoring Officer in consultation with the Independent Person:

- a) No further action;
- b) Attempt Informal Resolution;
- c) Recommend formal investigation;
- d) Referral to the Police or other regulatory agency if the complaint identifies criminal conduct or breach of other regulation.

- 7.3. Where the Monitoring Officer has taken a decision, he/she will inform the Complainant, the Independent Person, the Chairman of the Standards and Audit Committee, all Group Leaders, the Chief Executive and the Subject Member, of his/her decision and the reasons for that decision. The Monitoring Officer shall have the discretion to notify other persons of his/her decision (and the reasons for that decision) as he/she considers appropriate. Where the Monitoring Officer requires additional information in order to come to a decision, he/she may come back to you for such information, and may request information from the Subject Member.

8. Informal Resolution

- 8.1. In appropriate cases, the Monitoring Officer may seek to resolve the complaint without the need for a formal investigation by way of Informal Resolution, which may be appropriate for example:

- a) Where it is apparent that the Subject Member is relatively inexperienced as a Member or has admitted making an error, was not actuated by any malicious intent, and the matter would not warrant a more serious sanction;
- b) Where training or conciliation would be a more appropriate response.

- 8.2. Types of Informal Resolution might include:
- a) An explanation by the Subject Member of the circumstances surrounding the complaint;
 - b) An apology from the Subject Member;
 - c) An agreement from the Subject Member to attend relevant training or to take part in a mentoring process;
 - d) Offering to engage in a process of mediation or conciliation between the Subject Member and the Complainant; or
 - e) Any other action capable of resolving the complaint.
- 8.3. The Monitoring officer may seek the Complainant's views to ascertain what form of informal resolution they would find acceptable, particularly if the form of resolution they have specified in their complaint is not possible.
- 8.4. Where the Monitoring Officer seeks to resolve the complaint informally he or she will provide the Subject Member with recommendation together with a reasonable timescale within which to attempt to resolve the complaint (usually this will be 20 working days following a decision to seek informal resolution) or to engage in a process of informal resolution organised by the Monitoring Officer.
- 8.5. Before deciding upon a course of action, the Subject Member may seek guidance from the Leader of their political group, the Independent Person, and/or the Monitoring Officer.
- 8.6. At the end of the 20 working day period the Monitoring Officer will, in consultation with the Independent Person, seek to establish whether the Subject Member has resolved the complaint to the Complainant's satisfaction.
- 8.7. Where it has been possible to agree a form of resolution between the Subject Member and the Complainant, there will be no further action taken in respect of the complaint and the Monitoring Officer will notify both the Complainant and the Subject Member of this decision.
- 8.8. Where it has not been possible to agree a form of resolution between the Subject Member and the Complainant, the Monitoring Officer will decide if the complaint merits formal investigation.
- 8.9. Where the Subject Member makes a reasonable offer of informal resolution, but it is rejected by the Complainant, the Monitoring Officer will take account of this in his or her decision but may impose the Informal Resolution.

- 8.10. Where informal resolution is proposed, the Monitoring Officer may direct that the Subject Member and Complainant maintain confidentiality as to the matters discussed, and parties involved.

9. Formal Investigation

- 9.1. If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer.
- 9.2. The Investigating Officer will decide whether he/she needs to meet or speak to the Complainant to understand the nature of the complaint, and so that they can explain their understanding of events and suggest what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview.
- 9.3. The Investigating Officer will normally write to the Subject Member and provide him/her with a copy of your complaint, and ask the Subject Member to provide his/her explanation of events, and to identify what documents he needs to see and who he needs to interview. In exceptional cases, where it is appropriate to keep the Complainants identity confidential or disclosure of details of the complaint to the Subject Member might prejudice the investigation, the Monitoring Officer can delete your name and address from the papers given to the Subject Member, or delay notifying the Subject Member until the investigation has progressed sufficiently.
- 9.4. At the end of the investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to the Complainant and to the Subject Member concerned, to give both an opportunity to identify any factual matter in the draft report which is disputed or requires further investigation. A copy of the draft report will also be sent to the Monitoring Officer.
- 9.5. Having received and taken account of any comments that may be made on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.
- 9.6. The Monitoring Officer will, within 10 working days of the receipt of the Investigating Officer's report, review the report and undertake the steps outlined in paragraphs 9.7 and 9.8 below.
- 9.7. The Monitoring Officer will, in consultation with the Independent Person, determine whether:
- a) The report is complete, or (where incomplete) should be referred back to the Investigating Officer or a newly appointed Investigating Officer; or,
 - b) No further action is required, because the report finds no breach of the code of conduct; or
 - c) The matter may be reasonably resolved by way of Informal Resolution; or,
 - d) The matter should proceed to the Standards Hearing Sub-Committee.

9.8. A copy of the final report shall be sent to the Complainant, Subject Member, the Leader, Members Group Leader, Chairman of the Standards and Audit Committee and the Chief Executive.

10. Standards Hearing Sub-Committee/Local Hearing

10.1. If the Monitoring Officer considers that Informal Resolution is not appropriate, or the Complainant is not reasonably satisfied by the proposed resolution, or the Subject Member concerned is not prepared to undertake any proposed remedial action, the Monitoring Officer will report the Investigating Officer's report to the Standards Hearing Sub-Committee which will conduct a local hearing before deciding whether the Subject Member has failed to comply with the Code of Conduct and, if so, whether to take any action in respect of the Member.

10.2. The Standards Hearing Sub-Committee, with the benefit of any advice from the Independent Person, may conclude that the Member did not fail to comply with the Code of Conduct, and so dismiss the complaint. If the Standards Hearing Sub-Committee concludes that the Subject Member did fail to comply with the Code of Conduct, the Chairman will inform the Subject Member of this finding and the Standards Hearing Sub-Committee will then consider what action, if any, it should take as a result of the Subject Member's failure to comply with the Code of Conduct. In doing this, the Standards Hearing Sub-Committee will give the Subject Member an opportunity to make representations to it and will consult the Independent Person, but will then decide what action, if any, to take in respect of the matter. Separate guidance this procedure can be found at Appendix 3.

11. Sanctions

10.1 The Standards and Audit Committee has delegated to the Standards Hearings Sub-Committee power to take action in respect of individual Members who have breached the Code of Conduct. Accordingly the Standards Hearings Sub-Committee may –

- a) Publish its findings in respect of the Member's conduct. This might comprise issuing a press release and/or inserting a public notice in the local newspaper(s);
- b) Report its findings to Council for information;
- c) Censure or reprimand the Member;
- d) Recommend to the Member's Group Leader (or in the case of un-grouped Members, recommend to Council or to Committees) that he/she be removed from any or all Committees or Sub-Committees of the Council for such period as the Sub-Committee considers appropriate;
- e) Recommend to the Leader of the Council that the Member be removed from the Executive, or removed from particular Portfolio responsibilities for such period as the Sub-Committee considers appropriate;

- f) Instruct the Monitoring Officer to arrange training for the Member;
- g) Recommend to the Council that the Member be removed from all outside appointments to which he/she has been appointed or nominated by the Council for such period as the Sub-Committee considers appropriate;
- h) Withdraw facilities provided to the Member by the Council, such as a computer, website and/or email and Internet access for such period as the Sub-Committee considers appropriate; or
- i) Exclude the Member from the Council's offices or other premises, with the exception of meeting rooms as are necessary for attending Council, Committee and Sub-Committee meetings for such period as the Sub-Committee considers appropriate.

11.2. The Standards Hearings Sub-Committee has no power to suspend or disqualify the Member or to withdraw Members' allowances.

12. Notification of Decision

12.1. At the end of the hearing, the Chairman will state the decision of the Standards Hearing Sub-Committee as to whether the Subject Member failed to comply with the Code of Conduct and as to any actions which it resolves to take.

12.2. As soon as reasonably practicable thereafter, the Monitoring Officer shall prepare a formal decision notice in consultation with the Chairman of the Standards Hearings Sub-Committee, and send a copy to the Complainant and to the Subject Member. The decision notice shall include reasons for the decision. The Monitoring Officer will also make the decision notice available for public inspection and report the decision to the next convenient meeting of the Standards and Audit Committee.

13. Appeals

13.1. There is no right of appeal for you as complainant or for the Member against a decision of the Monitoring Officer or the Standards Hearing Sub-Committee.

13.2. If you feel that the Council has failed to deal with your complaint properly, you may make a complaint to the Local Government and Social Care Ombudsman.

13. Discontinuance of Complaints by Monitoring Officer

13.1 The Monitoring Officer may discontinue a complaint or terminate an investigation if they consider it appropriate to do so, having regard to whether the balance of the public interest lies in continuing to action the complaint, where the Subject Member:

- (a) ceases to be a Member of the Council,

(b) has a long term or serious illness and is unable to participate in the procedure, or

(c) dies.

13.2 Where a complaint is discontinued, the Monitoring Officer will write to the Complainant and the Subject Member setting out the reasons for their decision.

14. Confidentiality

14.1 Unless otherwise permitted under these arrangements or required by legislation, a complaint (and all associated information and documents) that a Member has breached the Code of Conduct shall remain confidential until such time that the Monitoring Officer or Standards Hearing Sub-Committee consider it appropriate (if at all) to disclose the complaint (and all associated information and documents).

14.2 Unless, otherwise determined, the findings of the Standards Hearing Sub-Committee shall be made public in accordance with the guidance set at Appendix 3.

15 Timescales

15.1 The investigation shall be carried out promptly, with the expectation that all investigations, resolution and hearings of the Sub-Committee will be completed within a maximum period of four months. All those involved in the complaint should do their utmost to ensure that this can happen.

15.2 Key dates in relation to the administration of the arrangements are set out in the body of the arrangements, and shall act as targets to facilitate the swift administration of the arrangements but which, if missed, will not invalidate the procedure comprised herein.

15.3 The Complainant and the Subject Member will be informed should there be a delay in completing any stage of the process.

16 Complaint Support

16.1 Assistance and support shall be provided to the Complainant and Subject Member throughout this process by the Deputy Monitoring Officer or Head of Human Resources as appropriate.

17 Annual Report

17.1 The Monitoring Officer shall submit an annual report to the Standards and Audit Committee. The report should include appropriate details of all complaints received (including those where no breach was found).

Arrangements paper - appendix 1

**COMPLAINT FORM:
CODE OF CONDUCT FOR MEMBERS**

**To: The Monitoring Officer
Woking Borough Council**

A. Your details

1. Please provide us with your name and contact details. Anonymous complaints will only be considered if there is independent evidence to substantiate the complaint.

Title:	
First Name:	
Last Name:	
Address:	
Contact Telephone:	
Email:	
Signature:	
Date of Complaint:	

Your address and contact details will not usually be released unless necessary or to deal with your complaint.

The following people will see this form:

- the Council's Independent Person advising the Standards Sub-Committee
- Monitoring Officer of the Borough Council
- the Chairman of the Standards and Audit Committee, if the matter proceeds to investigation
- the Standards Hearing Sub-Committee, if the matter proceeds to a Standards Hearing Sub-Committee

A brief summary of your complaint may also be shared, with the Member(s) you are complaining against. If you have serious concerns about your name and a summary, or details of your complaint being released, please complete Section C of this Form and also discuss your reasons or concerns with the Council's Monitoring Officer.

2. Please tell us which complainant type best describes you:

- A member of the public
- An elected or co-opted Member of the Council
- A Member of Parliament
- A Monitoring Officer
- Other council employee, contractor or agent of the Council
- Other (please state)

B. Making your Complaint

For a brief summary of sanctions available to the Standards Hearing Sub-Committee, please see information at the end of this Form.

3. Please provide us with the name of the member(s) you believe have breached the Borough Council's Code of Conduct.
4. Please explain in this section (or on separate sheet(s)) what the Member is alleged to have done that you believe breaches the Code of Conduct. If you are complaining about more than one member you should clearly explain what each individual person has done, with dates / witnesses to substantiate the alleged breach.

Title	First Name	Last Name

It is also important that you provide all the evidence you wish to have taken into account by the Monitoring Officer when he/she decides whether to take any action on your complaint or not. For example:

- You should be specific, wherever possible, about exactly what you are alleging the member said or did. For instance, instead of writing that the member insulted you, you should state what it was they said or did to insult you.
- You should provide the dates of the alleged incidents wherever possible. If you cannot provide exact dates it is important to give a general timeframe.
- You should confirm whether there are any witnesses to the alleged conduct and provide their names and contact details if possible.
- You should provide any relevant background information or other relevant documentary evidence to support your allegation(s).
- If the allegation(s) being made occurred over **28** days from the alleged behavior or conduct, clearly explain why the complaint was not made during that period of time.

Please provide us with the details of your complaint. Continue on a separate sheet if there is not enough space on this form.

C. Confidentiality of complainant and the complaint details

(Only complete this next section if you are requesting that your identity is kept confidential.)

5. In the interests of fairness and in compliance with the rules of natural justice, we believe members who are complained about have a right to know who has made the complaint and the substance of the allegation(s) made against him/her. We are, therefore, unlikely to withhold your personal details or the details of your complaint unless you have good reasons to believe that you have justifiable grounds, for example:-

- you believe you may be victimised or harassed by the Member(s) against whom you are submitting a written complaint (or by a person associated with the same); or
- you feel you may receive less favourable treatment from the Council because of the seniority of the Member against whom you are submitting a written complaint in terms of any existing Council service provision or any tender/contract that you may have or are about to submit to the Council.

Please note that requests for confidentiality or requests for suppression of the personal and complaint details will not automatically be granted. The Monitoring Officer will consider the request with the Independent Person alongside the substance of your complaint and the Monitoring Officer will then contact you with the decision. If your request for confidentiality is not granted, we will usually allow you the opportunity, if you so wish, of withdrawing your complaint.

However, it is important to understand that - in exceptional circumstances, where the matter complained about is very serious - we may proceed with an investigation (or other action) and may have no choice but to disclose your personal and complaint details, because of the allegation(s) made, even if you have expressly asked us not to.

Please provide us with details of why you believe we should withhold your name and/or the details of your complaint. Continue on a separate sheet if there is not enough space on this form.

D. Additional Information

6. Frivolous, vexatious and politically-motivated tit-for-tat complaints are likely to be rejected.
7. Complaints must be submitted in writing. In line with the requirements of the Equality Act 2010, we can make reasonable adjustments to assist you if you have a disability that

prevents you from making your complaint in writing. We can also help if English is not your first language.

8. If you need any support in completing this form, please contact the Monitoring Officer as soon as possible.

E. Process from here

9. Once a valid complaint relating to an alleged breach of the Code of Conduct for Members has been received by the Monitoring Officer, it will be considered by the Monitoring Officer with the Independent Person. You and the member against whom the complaint has been made will not be allowed to attend these deliberations, as the matter will be considered in private.
10. The Monitoring Officer, in consultation with the Independent Person, may resolve to:
 - (a) dismiss your complaint, with reasons;
 - (b) ask you for additional information, with reasons; or
 - (c) refer your complaint for investigation (or other action).
11. You will be notified once the decision is made and given information on any further stage(s) in the process at that time.

Monitoring Officer
Woking Borough Council
Civic Offices
Gloucester Square
Woking
GU21 6YL

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01483 743038

Sanctions available to the Standards Hearing Sub-Committee

The Council has delegated to the Standards Hearing Sub-Committee such of its powers to take action in respect of individual members as may be necessary to promote and maintain high standards of conduct. Accordingly the Standards Hearing Sub-Committee may:–

- (a) Publish its findings in respect of the Member's conduct. This might comprise issuing a press release and/or inserting a public notice in the local newspaper(s);
- (b) Report its findings to Council for information;
- (c) Censure or reprimand the Member;
- (d) Recommend to the Member's Group Leader (or in the case of un-grouped Members, recommend to Council or to Committees) that he/she be removed from any or all Committees or Sub-Committees of the Council for such period as the Sub-Committee considers appropriate;
- (e) Recommend to the Leader of the Council that the Member be removed from the Executive, or removed from particular Portfolio responsibilities for such period as the Sub-Committee considers appropriate;
- (f) Instruct the Monitoring Officer to arrange training for the Member;
- (g) Recommend to the Council that the Member be removed from all outside appointments to which he/she has been appointed or nominated by the Council for such period as the Sub-Committee considers appropriate;
- (h) Withdraw facilities provided to the Member by the Council, such as a computer, website and/or email and Internet access for such period as the Sub-Committee considers appropriate; or
- (i) Exclude the Member from the Council's offices or other premises, with the exception of meeting rooms as are necessary for attending Council, Committee and Sub-Committee meetings for such period as the Sub-Committee considers appropriate.

The Standards Hearing Sub-Committee has no power to suspend or disqualify the member or to withdraw members' or special responsibility allowances and there is no right of appeal against the decision.

Arrangements paper - appendix 2

Assessment of the Complaint

The Monitoring Officer will, within 10 working days of the acknowledgement of receipt of a complaint, apply the following questions to determine whether a Complaint falls within the jurisdiction of these arrangements.

The Monitoring Officer shall do so in consultation with the Independent Person.

Stage 1 - Initial Jurisdiction Test

The complaint will be assessed by the Monitoring Officer against an Initial Jurisdiction Test as follows:

- (a) Did the alleged conduct occur before the adoption of the Code of Conduct?
- (b) Was the Subject Member a member of the Borough Council at the time of the alleged conduct?
- (c) Was the Subject Member acting in an official capacity as a councillor at the time of the alleged conduct? (The case law and legislative position is that Code of Conduct matters can only be dealt with when the allegation is about something that a Councillor did in his or her role as a councillor when acting in an official capacity.)
- (d) Did the alleged conduct occur when the Subject Member was acting as a member of another authority?
- (e) If the facts, could be established, as a matter of evidence, could or would the alleged conduct be capable of a breach of the Code of Conduct?
- (f) Is the complaint limited to dissatisfaction with the Borough Council's decisions, policies and priorities, etc.?

If the complaint fails one or more of the initial jurisdiction tests, no further action will be taken by the Monitoring Officer and the complaint will be rejected. The Complainant will be notified accordingly with reasons. There is no internal right of appeal against the Monitoring Officer's decision.

If the complaint satisfies the Initial Jurisdiction Test the Monitoring Officer the Monitoring Officer will then proceed to assess the complaint. The Assessment Test aids the Monitoring Officer in reaching a decision on the complaint by enabling the Monitoring Officer to consider the following criteria, whilst taking into account the nature of the complaint and the need to adopt a proportionate response:

Stage 2 - The Assessment Test:

General

- (1) Has the Complainant submitted enough information as regards the allegation and alleged misconduct to sustain a potential breach of the Code of Conduct?
- (2) Is an investigation likely to prove on the balance of probability whether or not a breach took place?
- (3) Does the complaint appear to be too trivial to warrant further action?
- (4) Is the evidence sufficiently reliable i.e. is it first-hand evidence or hearsay evidence?
- (5) Is the evidence relevant to the alleged breach?
- (6) Could any further evidence be revealed by an investigation?
- (7) Would an investigation serve any useful purpose?
- (8) Is the allegation serious enough to warrant further action?

Mitigating factors (tending to make further action less likely)

- (9) The substance of the complaint has already been the subject of an investigation or

- other action relating to the Code of Conduct;
- (10) The allegation took place more than 28 days prior to receipt of the complaint and there would be little benefit in taking action now;
 - (11) The Subject Member took appropriate advice on the matter and followed that advice;
 - (12) The complaint is such that it is unlikely that an investigation will be able to come to a firm conclusion on the matter, e.g. where there is no firm evidence on the matter;
 - (13) It is likely that an investigation will prove only a technical or inadvertent breach;
 - (14) The complaint appears to be malicious, vexatious, politically motivated or tit-for-tat;
 - (15) The Complainant has involved the press in relation to the alleged complaint;
 - (16) The member has already provided (or tried to provide) a suitable remedy (such as apologising);
 - (17) The breach occurred in all innocence i.e. without knowledge;
 - (18) There was unreasonable provocation;
 - (19) The complaint involves a Subject Member who is seriously ill and it would not be in the public interest to pursue;
 - (20) The complaint is about a deceased person;
 - (21) The complaint is about a person who is no longer a borough councillor.

Aggravating factors (tending to make further action more likely)

- (22) The complaint involves allegations of bullying or intimidation of a Complainant;
- (23) The allegation if proven could have a serious effect upon the reputation of the Council or parish council, upon staff relations or upon public trust and confidence;
- (24) The Subject Member holds a position of seniority and/or a position of influence;
- (25) There is a pattern of individual acts of minor misconduct which appear to be part of a continuing pattern of behaviour that is unreasonably disruptive to the business of the Council;
- (26) The Subject Member took appropriate advice on the matter but did not follow that advice;
- (27) The complaint involves an allegation that the behaviour may cause the Council to breach an equality enactment;

The criteria set out in the Assessment Test is not an exhaustive or prescriptive list and the Monitoring Officer can take into account other criteria dependent on the circumstance of the complaint. The existence of such criteria does not fetter the discretion of the Monitoring Officer. A written record of the assessment decision will be provided aiding robust and transparent decision-making.

Arrangements paper - appendix 3

STANDARDS HEARING SUB- COMMITTEE GUIDANCE

The need for a hearing

The Standards Hearing Sub-Committee (Sub-Committee) will seek to hold a hearing in relation to an allegation within one month of receiving the Investigation Report.

Before the hearing

The pre-hearing process – Lead by the Monitoring Officer

The Subject Member will be asked to provide the following information to the Monitoring Officer:

- to identify those paragraphs in the Investigating Officer's Report which the Subject Member agrees with and those paragraphs in the Report that the Subject Member disagrees with and the reasons for such disagreement;
- to identify any further documentary evidence which the Subject Member would like to rely upon at the hearing;
- to ascertain if they are going to attend the Sub-Committee and if they are going to represent themselves or whether they are going to employ someone to represent them in which case they should provide the details of their representative prior to the hearing;
- to give reasons whether the whole or any part of the Sub-Committee should be held in private and whether any of the documentation supplied to the Standards Sub- Committee should be withheld from the public.

The Investigating Officer will also be asked to comment on the Subject Member's response within a set time to say whether or not he or she:

- will be represented at the Sub-Committee;
- wants to call witnesses to give evidence to the Sub-Committee;
- wants any part of the Sub-Committee conducted in private and why;
- wants any part of the Investigating Officer's report or other relevant documents to be withheld from the public and why.
- The Monitoring Officer will endeavour to accommodate the availability of the parties attending the hearing before notifying the parties of the date, time and place for the hearing.

The Complainant will be asked to provide the following information to the Monitoring Officer:

- the Investigator's report forms basis of the case that the Code of Conduct has been breached. The Complainant asked to identify those paragraphs in the Investigating Officer's Report which the Complainant agrees with and those paragraphs in the Report that the Complainant disagrees with and the reasons for such disagreement.
- to ascertain if they wish to attend the Sub-Committee and whether or not they wish to make representations to the Sub-Committee (the Investigating Officer shall advocate that the Code of Conduct has been breached);
- to give reasons whether the whole or any part of the hearing should be held in private and whether any of the documentation supplied to the Standards Hearing Sub-Committee should be withheld from the public.

The Hearing

The Sub-Committee will use a written pre-hearing process in order to allow the hearing to proceed fairly and efficiently.

The Order of *Business*

The order of business will be as follows, subject to the Chairman exercising discretion and amending the order of business where they consider that it is expedient to do so in order to secure the effective and fair consideration of any matter:

- Appointment of a Chairman/Vice Chairman.
- Apologies for absence.
- Declarations of interests.
- The Chairman shall confirm that the Standards Hearing Sub-Committee is quorate.
- In the absence of the Subject Member, consideration as to whether to adjourn or to proceed with the hearing.
- Introduction by the Chairman, of Members of the Standards Hearing Sub-Committee, the Independent Person, the Monitoring Officer or Legal Advisor to the Sub-Committee, Investigating Officer, Complainant(s) and the Subject Member and their representative (if appointed).
- To determine whether the public/press are to be excluded from any part of the meeting and/or whether any documents (or parts thereof) should be withheld from the public/press.
- Conduct of the Hearing. The Standards Hearing Sub-Committee may adjourn the hearing at any time.

Presentation of the Complaint

The Investigating Officer presents their report including any documentary evidence or other material and calls any complainant witnesses.

The Standards Hearing Sub-Committee will give the Subject Member the opportunity to ask any questions regarding the evidence presented through the Chair.

The Standards Hearing Sub-Committee may question the Investigating Officer upon the content of his or her report and any complainant witnesses.

Presentation of the Subject Member's case

The Subject Member or their representative presents their case and calls their witnesses.

The Standards Hearing Sub-Committee will give the Investigating Officer the opportunity to ask any questions regarding the evidence presented through the Chair.

The Standards Hearing Sub-Committee may question the Subject Member upon the contents of their case and any Subject Member witnesses.

Summing up

The Investigating Officer sums up the complaint.

At the discretion of the Chairman of the Sub-Committee, the Complainant may have the opportunity to rebut any matters raised within the Sub-Committee to which they disagree.

The Subject Member or their representative sums up their case.

Views/Submissions of the Independent Person

The Chairman will invite the Independent Person, to express their view on whether they consider that on the facts presented to the Standards Hearing Sub-Committee there has been a breach of the Code of Conduct or no breach as the case may be.

Deliberations of the Sub-Committee

The Sub-Committee will adjourn the hearing and deliberate in private (assisted on matters of law by a legal advisor) to consider whether on the facts found, the Subject Member has failed to

comply with the Code of Conduct. Where the legal adviser assists on matters of law an explanation of this will be provided when the Sub-Committee reconvenes in public.

The Sub-Committee may, at any time, come out of private session and reconvene the hearing in public, in order to seek additional evidence from the Investigating Officer, the Subject Member or the witnesses. If further information to assist the Sub-Committee cannot be presented, then the Sub-Committee may adjourn the hearing and issue directions as to the additional evidence required and by whom.

The Sub-Committee will make its decision on the balance of probability, based on the evidence before it during the hearing.

Where the complaint has a number of aspects, the Sub-Committee may reach a finding, apply a sanction and /or make a recommendation on each aspect separately.

Having deliberated on its decision the Sub-Committee will reconvene the hearing in public and the Chairman will announce that, on the facts presented, the Sub-Committee considers that there has been a breach of the Code of Conduct, or no breach, as the case may be.

If the Sub-Committee considers that there has been **no breach of the Code of Conduct** the Sub-Committee will set out the principal reasons for the decision. The Chairman will also announce that the Sub-Committee's full decision and reasons will be issued by the Monitoring Officer, in writing within approximately 10 working days following the close of the hearing.

If the Sub-Committee decides that there has been **a breach of the Code of Conduct**, the Chairman will announce the principal reasons for the decision.

The Chairman will then invite the Investigating Officer and the Subject Member, to make their representations as to whether any sanction(s) or recommendations should be applied and what form any sanction(s) or recommendation(s) should take.

In reaching its decision the Sub-Committee may make any recommendations it considers may facilitate and enhance ethical standards within the relevant authority. The Independent Person will then be invited to express their view on any sanction(s) or recommendation(s).

Having heard the representation/views, the Sub-Committee will adjourn and deliberate in private.

Having deliberated on the suggested sanctions and/or recommendations(s) and the application of any sanctions(s), and having taken into account the Independent Person's views the Sub-Committee will reconvene the hearing in public and the Chairman will announce:

- whether any sanctions are to be applied
- Whether any recommendations will be made to the Council or the Monitoring Officer.
- That the Sub-Committee's full decision and reasons will be issued by the Monitoring Officer, in writing within approximately 10 working days following the close of the hearing.
- That the decision will be published on the Borough Council's website; and
- That there is no internal right of appeal against the Standards Hearing Sub-Committee decision(s) and/or recommendations(s).

Range of Possible Sanctions

The Sub-Committee may:

- Publish and report its findings in respect of the Subject Member's conduct to
- a meeting of the full Council
- Recommend to Council that the Subject
- Member be requested to apologise;
- Recommend to the Subject Member's political group leader (or in the case of

- an un-grouped Subject Member, recommend to Council or to Committees) that they be removed from any or all Committees or Sub-Committees of the Council for a specified period;
- Recommend to the Leader of the Council, in the case of an Executive Subject Member, that the Subject Member be removed from the Executive, or removed from particular portfolio responsibilities;
- Recommend to Council that the Subject Member be requested to participate in appropriate training or participation in conciliation or mediation;
- Recommend to Council or the relevant Parish Council that the Subject Member be removed from all outside appointments to which they have been appointed or nominated by the Council for a specified period;
- Withdraw withdraws facilities provided to the Subject Member by the Council, such as a computer, website and/or e-mail and internet access for a specified period;
- Exclude the Subject Member from the Council's offices or other premises, with the exception of meeting rooms as necessary for attending Council, Committee and Sub-Committee meetings;
- Issue a formal letter to the Subject Member;
- Issue a formal reprimand to the Subject Member.

The Sub-Committee cannot suspend a Subject Member, withdraw a Subject Member's allowance, impose financial penalties, award compensation or make an award of costs.

Matters to Consider when Applying a Sanction

When deciding whether to apply one or more sanctions referred to above the Sub-Committee will ensure that the application of any sanction is reasonable and proportionate to the Subject Member's behaviour and that any sanction does not unduly restrict the Subject Member's ability to perform the functions of a councillor. The Sub-Committee will consider the following questions along with any other relevant circumstances raised at the hearing:

- What was the Subject Member's intention and did they know that they were failing to follow the Council's Code of Conduct?
- Did the Subject Member receive relevant advice from officers before the incident and was that advice acted on in good faith?
- Has there been a relevant breach of trust?
- Has there been financial impropriety, e.g. improper expense claims or procedural irregularities?
- What was the result/impact of failing to follow the Council's Code of Conduct?
- How serious was the incident?
- Does the Subject Member accept that they were at fault?
- Did the Subject Member apologise to the relevant persons?
- Has the Subject Member previously been warned or reprimanded for similar misconduct?
- Has there been a relevant previous breach by the Subject Member of the Council's Code of Conduct?
- Is there likely to be a repetition of the incident?
- Was it a deliberate breach of the code or was it inadvertent (i.e. the Member thought that he/she was acting in a private capacity)? If capacity is an issue the Standards Hearing Sub-Committee will need to give reasons for its decision that the Subject Member was or was not acting publicly.

The written decision

The Chairman will announce its decision on the day. The Committee will issue a full written decision approximately 10 working days after the end of the hearing to:

- The Subject Member; and
- The Complainant;

Making the findings public

A summary of the decision and reasons for that decision to be published on the Council's website. The Monitoring Officer and Chairman of the Standards Hearing Sub-Committee shall agree the wording and arrange for the publication as soon as reasonable possible follow the determination of the matter.

If the Sub-Committee finds that a Subject Member did not fail to follow the Council's Code of Conduct, the public summary must say this, and give reasons for this finding.

If the Sub-Committee finds that a Subject Member failed to follow the Code of Conduct, but that no action is needed, the public summary must say that the Subject Member failed to follow the Code of Conduct, outline what happened and give reasons for the Sub-Committee's decision not to take any action.

If the Sub-Committee finds that a Subject Member failed to follow the Code of Conduct and it sets a sanction, the public summary must say that the Member failed to follow the Code of Conduct, outline what happened, explain what sanction has been set and give reasons for the decision made by the Sub-Committee.

Costs

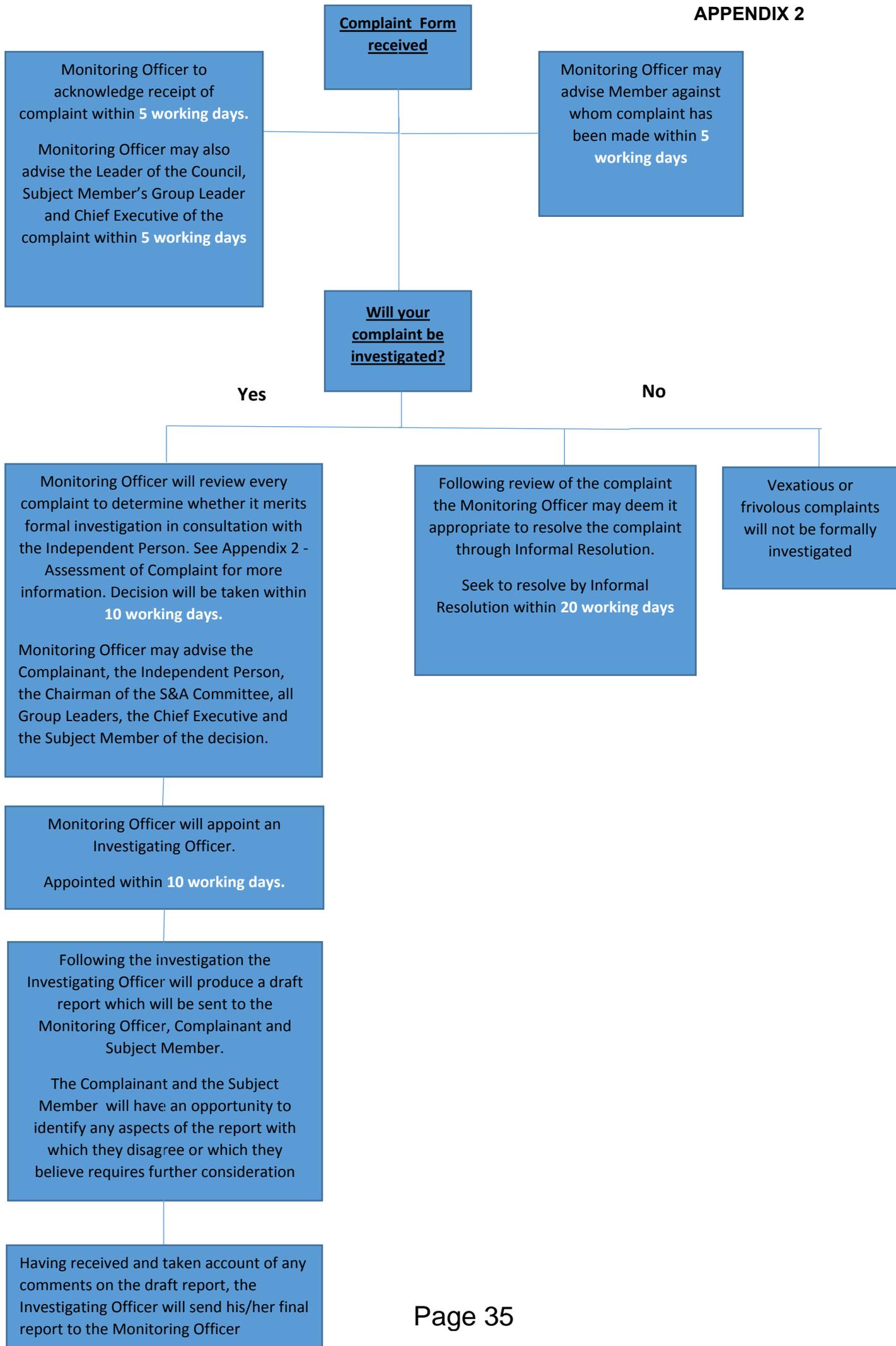
Subject Members are responsible for meeting the cost of any representation at a Sub-Committee meeting. The Sub-Committee cannot make orders as to costs. The Council cannot contribute to the Subject Member's costs or the Complainant's costs or indemnify a Subject Member or Complainant against costs which he or she may incur.

Appeals

There is no internal right of appeal for a Member against a finding by the Standards Hearing Sub-Committee following a hearing.

Variation

The Monitoring Officer or the Chairman of the Standards Hearing Sub-Committee may vary this procedure in any particular instance where he or she or they is/are of the opinion that such a variation is desirable and does not conflict with statutory requirements.



Outcome of Complaint

Investigating Officer concludes there is no evidence of failure to comply with Code of Conduct?

Investigating Officer concludes there is evidence of failure to comply with Code of Conduct?

Monitoring Officer will review the Investigating Officer's report within **10 working days** and, if satisfied (after consulting the Independent Person) that the Investigating Officer's report is sufficient, the Monitoring Officer will write to the Complainant and to the Subject Member concerned to provide them with a final copy of the report and to notify them that he/she is satisfied that **no further action is required**

The Monitoring Officer shall send a copy of the final report to the Complainant, Subject Member, the Leader, Members Group Leader, Chairman of the Standards and Audit Committee and the Chief Executive

If the Monitoring Officer is not satisfied that the investigation has been conducted properly, he/she may ask the Investigating Officer to reconsider his/her report

Monitoring Officer will review the Investigating Officer's report within **10 working days** and will then either send the matter for **local hearing** before the Standards Hearings Sub-Committee or, after consulting the Independent Person, seek **Informal Resolution**

Informal Resolution
Monitoring Officer will consult Independent Person and Complainant to agree what they consider a fair resolution. If Subject Member complies with the suggested resolution, the Monitoring Officer will report the matter to the Standards and Audit Committee for information, but will otherwise take no further action

Within 20 working days

Local Hearing /Standards Hearing Sub-Committee

Monitoring Officer will conduct pre-hearing process. See Appendix 3. The Investigating Officer and Subject Member will make representations to the Standards Hearings Sub-Committee and if the Sub-Committee finds the Subject Member failed to comply with the Code of Conduct the Chairman will inform the Member of this finding and the Standards Hearings Sub-Committee will then consider what action, if any, it should take as a result of the Member's failure to comply with the Code of Conduct

Monitoring Officer will prepare a formal decision notice in consultation with the Chairman of the Standards Hearings Sub-Committee **as soon as reasonably practicable**

The decision notice will set out the reason for the decision and be sent to the Complainant and to the Member

STANDARDS AND AUDIT COMMITTEE – 25 NOVEMBER 2021

PUBLIC SECTOR AUDIT APPOINTMENTS

Executive Summary

The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23 and following the procurement BDO LLP were appointed.

PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies need to consider whether to arrange their own procurement, work in conjunction with other bodies, or join the national scheme administered by PSAA.

Whilst there have been issues with the audit service under the current contract, a local procurement would not address the sector wide challenges. Opting into a sector-wide procurement conducted by PSAA has a number of benefits to the Council.

- Reduction in the procurement costs which would be incurred if the Council managed its own process;
- Outside the national arrangements the Council would need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract; and
- It is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.

Under the local audit regulations a decision of full Council is required to opt into the national auditor appointment arrangements. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

Recommendations

The Committee is requested to:

RECOMMEND TO COUNCIL That the Council opts into the sector-led appointment of external auditors by Public Sector Audit Appointments (PSAA) for five financial years from 1 April 2023.

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers: None.

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Date Published: 17 November 2021

1.0 Introduction

- 1.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23 and following the procurement BDO LLP were appointed.
- 1.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies need to consider whether to arrange their own procurement, work in conjunction with other bodies, or join the national scheme administered by PSAA.
- 1.3 Under the local audit regulations a decision of full Council is required to opt into the national auditor appointment arrangements. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

2.0 Procurement of External Audit for the period 2023/24 to 2027/28

- 2.1 Under the Local Government Audit & Accountability Act 2014 (“the Act”), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;
 - To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
- 2.2 In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

3.0 The Appointed Auditor

- 3.1 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 3.2 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 3.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is a currently a shortage of registered firms and Key Audit Partners.
- 3.4 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 3.5 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

4.0 Appointment by the Council itself or jointly

4.1 The Council may elect to appoint its own external auditor under the Act, which would require the council to;

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

4.2 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.

5.0 The national auditor appointment scheme

5.1 PSAA is specified as the 'appointing person' for local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

5.2 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

6.0 Pressures in the current local audit market and delays in issuing opinions

- 6.1 There have been many changes in the audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of eligible bodies opted into the national scheme which attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.
- 6.2 During 2018 a series of financial crises and failures in the private sector led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit.
- 6.3 The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 6.4 The Kingman review led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake.
- 6.5 In conducting 2018/19 local audits during 2019, the measures audit firms were putting in place to respond to a more focused regulator was apparent. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. This additional work required more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. There were also many more fee variation claims than had been needed in prior years.
- 6.6 Auditor firms have also faced additional challenges through auditor recruitment and retention, the complexity of local government financial statements and increasing levels of technical challenges as authorities explore innovative ways of developing new or enhanced income streams to help fund services for residents. Further pressures have been experienced as a result of the Covid-19 pandemic.
- 6.7 Other sectors have experienced similar challenges, where there have been increased fees and disappointing responses to tender invitations during the past two years.

7.0 The PSAA process

- 7.1 PSAA is now inviting authorities to opt in for the second appointing period, for 2023/24 to 2027/28. Based on the numbers opting in, it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. A copy of PSAA's invitation are provided in Appendix 1 to this report together with the PSAA prospectus and procurement strategy at Appendix 2 and 3.
- 7.2 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
 - seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
 - pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties

(pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process);

- minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5m to relevant bodies and in 2021 a further £5.6m was returned.

7.3 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

7.4 The scope of a local audit is fixed. It is determined by the Code of Audit Practice, the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

7.5 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. A local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

8.0 Assessment of options

8.1 A local or joint procurement exercise would be more resource intensive processes to implement for the council and may result in a more costly service without the bulk buying power of the sector-led procurement.

8.2 The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.

8.3 The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

8.4 Whilst there have been many issues with the audit service the Council has received since 2018/19, it is unlikely that a local procurement would result in better outcomes. The Council would also not have the support of PSAA to enable a sector wide consistent approach is taken to contract management and fee variations. The recommended approach is therefore to again opt in to the national auditor appointment scheme.

9.0 The way forward

9.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council.

9.2 The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA, attached as an Appendix to this report, by the close of the opt-in period on 11 March 2022.

- 9.3 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

10.0 Implications

Finance and Risk

- 10.1 The principal risks are that the Council fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation, or it does not achieve value for money in the appointment process.
- 10.2 The risks are considered best mitigated by opting into the sector-led approach through PSAA.
- 10.3 There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
- 10.4 Opting into a collective procurement through the national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained.
- 10.5 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement.
- 10.6 The audit fees charged by the PSAA will cover the costs of the PSAA appointing auditors and managing the arrangements. This avoids the costs of a procurement exercise just for the Council.
- 10.7 Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

Equalities and Human Resources

- 10.8 There are no equalities or human resources implications.

Legal

- 10.9 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
- 10.10 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.
- 10.11 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 10.12 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of

State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

10.13 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in to the national auditor appointment scheme must be made by Full Council (authority meeting as a whole). To comply with this regulation it is necessary for the Committee to make the recommendation to Council.

11.0 Conclusions

11.1 The sector led procurement of external auditors from 2023/24 offers the most efficient procurement solution and is most likely to achieve the best value for money for the Council.

REPORT ENDS

22 September 2021

To: Ms Fisher, Chief Executive
Woking Borough Council

Copied to: Ms Clarke, S151 Officer
Mrs Storey, Chair of Audit Committee or equivalent

Dear Ms Fisher,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

Appointing Period 2023/24 to 2027/28
Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: ap2@psaa.co.uk

Subject: Woking Borough Council Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **Woking Borough Council** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[insert name of signatory]**

Title: **[insert role of signatory]** (authorised officer)

For and on behalf of: **Woking Borough Council**

Date: **[insert date completed]**

PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021

www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by [your feedback to the June 2021 consultation](#) on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

In relation to appointing auditors, eligible bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) **no later than midnight on Friday 11 March 2022**.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

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

“The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market.”

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

MHCLG's¹ Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing

both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO²), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

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

² MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Procurement Strategy

Our [procurement strategy](#) sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

Minimum Audit Fees

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

Standardised fee variations

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

Approach to social value in the evaluation of tenders

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being "*calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed*".

Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the [webinar series](#) can be found on our website.

Eligible Principal Bodies in England

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

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- district councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.

Audit services procurement strategy 2022

September 2021

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

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Introduction

1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association (LGA) in August 2014. It has a Board of non-executive directors supported by a Chief Executive and a team of staff who have significant experience and skills in managing contracts for public audit services. More information about the PSAA Board and Executive team can be found at <http://www.psaa.co.uk/about-us/who-we-are/>.
2. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.
3. During the next few months all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.
4. In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme managed by PSAA.
5. Events since 2018 have resulted in an audit industry that is under enormous pressure and the local audit system is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits.
6. We believe that PSAA's national scheme offers the best option for local bodies to secure the appointment of appropriately qualified auditors in the current challenging market conditions. The Local Government Association and MHCLG¹ have expressed similar views.

Background to the procurement

7. One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

8. In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.
9. We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is strongly preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.
10. We will, however, consider the circumstances in which it may possibly be necessary to extend one or more current contracts nearer to the commencement of the procurement. This will enable our approach to take into account latest information including any relevant policy announcements or clarifications.
11. MHCLG's Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. Following the publication of its response to the consultation on changes to the Local Audit (Appointing Person) Regulations 2015, the government has committed to introduce secondary legislation to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year. New regulations are expected to come in to force this Autumn. These changes would enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.
12. PSAA has set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.
13. PSAA needs to enter into new contracts with audit firms in order to make auditor appointments to opted-in bodies by 31 December 2022, as required by the Appointing Person Regulations. This procurement strategy sets out our current plans for the basis on which the procurement of audit services will be carried out.

Objectives of the procurement

14. Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.
15. The objectives of the procurement are to maximise value for local public bodies by:
 - securing the delivery of independent audit services of the required quality;
 - awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;

- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
 - encouraging audit suppliers to submit prices which are realistic in the context of the current market;
 - enabling auditor appointments which facilitate the efficient use of audit resources;
 - supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
 - establishing arrangements that are able to evolve in response to changes to the local audit framework.
16. It is necessary to enter into contracts with a number of audit suppliers to provide sufficient capacity for all of the audits required, enable PSAA to manage auditor independence issues and, if possible, grow the number of active suppliers in the local audit market.

Scope of the procurement

17. The procurement will cover the audits of the accounts of all eligible bodies that opt into the appointing person scheme. Eligible bodies include local authorities, combined authorities, police and crime commissioners including PFCCs, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.
18. There are currently 476 eligible bodies that will receive invitations to opt into the appointing person arrangements during September 2021. This number may reduce slightly from 1 April 2023 given the planned reorganisation in the counties of Cumbria, North Yorkshire, and Somerset. The closing date for acceptance of the opt-in invitation is 11 March 2022. We expect to receive acceptances from eligible bodies throughout the opt-in period and will maintain and publish an up to date record of bodies joining the scheme on the PSAA website.
19. PSAA has allowed a considerably longer period during which an eligible body can opt in compared to the statutory minimum period of eight weeks. It is hoped this will enable eligible bodies to meet the requirement under the regulations to make the decision to opt in at a full council meeting. (As corporations sole, the full council requirement does not apply to police and crime commissioners and police, fire and crime commissioners).
20. In order to maximise the potential economies of scale for eligible bodies as a result of entering into large contracts with firms, and to manage any auditor independence issues, PSAA will seek to provide as much clarity and certainty as possible concerning the volume and nature of audits it is able to offer to firms.

Evolution of this strategy

21. This strategy has been developed based on our knowledge and experience of previous procurements for audit and related services, including the lessons learned from our 2017 procurement and the research we have commissioned since that time. Importantly it has

been shaped by the feedback received to the market engagement exercise and consultation with eligible bodies, which we undertook in June 2021. [A summary of the response to PSAA's consultation and market engagement](#) has been published.

22. PSAA has produced a risk allocation matrix (attached as an appendix) to inform the development of its commercial model and pricing approach as described in this strategy. It sets out PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.
23. This procurement strategy was agreed by the PSAA Board on 15 September 2021. It has also been shared and discussed with members of the Liaison Committee chaired by MHCLG and involving representatives of FRC, NAO, CIPFA, ICAEW and the LGA. In a number of areas feedback has helped us to evolve our thinking on the procurement characteristics outlined in the June 2021 draft prospectus and market engagement documents.
24. PSAA will continue to informally engage with the market following the publication of this procurement strategy until the contract notice is published.
25. Two market briefings will be held – in November 2021 and January 2022 – to explain and answer questions about our procurement strategy.
26. Shortly after the January briefing, we expect to publish the contract notice. From that point forward, all engagement in respect of the procurement will be conducted in accordance with the arrangements described in the procurement documentation.
27. The significant work to reform audit in the wake of the four government reviews (Kingman's review of the FRC; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit) is underway.
28. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Alongside changes to the general and local audit framework, the Government is reviewing the public sector procurement regulations, following the UK's withdrawal from the European Union.
29. Given this context we will keep the procurement strategy under review and may make appropriate revisions as a result of any policy, regulatory or other significant changes arising.

The procurement strategy

The procurement route

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

Choice of procurement procedure

31. PSAA is keen, if possible, to enter into contracts with a larger number of suppliers registered as local public auditors than the current five. This could include a non-registered firm working with a registered firm.
32. This will give PSAA the ability to manage auditor independence issues, for example, where an audit supplier has a pre-existing relationship with an opted-in body which prevents it from accepting an audit appointment. It will also provide the flexibility to enable PSAA to respond to the significant number of joint or shared working arrangements for which partner eligible bodies often express a preference for the appointment of a common audit supplier. By entering into contracts with a number of suppliers, PSAA will help to support the drive towards a long term competitive and more sustainable market for local public audit services.
33. Because the nature of the services being procured is highly specialised, PSAA will follow the restricted procedure (rather than the open procedure) in accordance with the Contract Regulations. This will enable PSAA to identify those suppliers with the necessary financial standing, technical capability, skills and experience to provide services and then invite all those shortlisted to tender.
34. Bids will be accepted from suppliers which are registered as, or that are currently proceeding through the registration process to become, a local public auditor with a supervisory body approved by the Financial Reporting Council, currently the Institute of Chartered Accountants in England and Wales (ICAEW). The registration and ongoing monitoring processes test supplier quality and competence.
35. Bids from consortia or other forms of joint working arrangements will be permitted where at least one member organisation within the consortium or arrangements is individually registered as (or going through the process of registration to become) a local public auditor with the ICAEW.
36. An award made to a supplier going through the registration process will be conditional on the ICAEW, as the Registered Supervisory Body, approving their registration and the procurement will not seek to prejudice ICAEW's approval process.
37. Suppliers invited to tender will be asked to quote prices for a contract length of five years, which matches the opt-in period for eligible bodies. The contracts will include the option to extend the contract duration by up to a further two years, by mutual agreement.
38. Variant bids will not be permitted.

Contract lots

39. PSAA will structure its procurement and invite bids as set out in the paragraphs below, subject to confirmation once the number of eligible bodies opting into the scheme is known.
40. There will be a single England-wide contract area, containing between 7 and 11 lots. There will also be a further two lots which will be classed as “development lots”.
41. The size of the lots will be graduated to enable bidders to match their capacity and risk appetite with their preferred lot size.
42. The number of individual lots and their indicative value will be clearly set out in the invitation to tender. PSAA will reserve the right to award work in excess of the lot size as a mitigation should we be unable to award all lots.
43. For each individual lot, PSAA will give an indication of the minimum volume of work which the lot will contain.
44. The two “development lots” will be sized at around 2% and 1% of opted-in bodies in order to encourage new entrants.
45. There will be no requirement for bidders to participate in joint audits.
46. Except for the development lots, each lot in its final form will reflect a sensible balance of geography and a blend of the different authority types, taking account of the guiding principles used when making auditor appointments as set out in para 54 below. Most lots are likely to include one or more public interest entity (PIE) audits. However, in addition to the two development lots, two further lots will exclude any PIE audits.
47. The indicative value of each lot will be expressed by reference to the ‘audited body notional value’ (ABNV), which comprises the published scale fees for 2021/22 for all opted-in bodies. This will establish a consistent baseline for bidders’ pricing.
48. Within the invitation to tender we will provide further information that will be helpful to bidders in their consideration of bid prices covering:
 - those future regulatory and Code-related changes up to April 2023 that we expect bidders to reflect in their pricing. Correspondingly, we will identify those possible changes where there is insufficient information available to do so and outline how these will be handled; and
 - a schedule of opted-in bodies which details the most recent audit year completed, the scale fee and the nature and value of recurring fee variations that are already baked into the scale fee.
49. Named audits will not be allocated to a lot until the procurement is complete and the subsequent consultation processes with opted-in bodies and successful bidders have taken place. Having a larger number of lots increases the opportunity for a greater

proportion of a lot to be concentrated in specific geographical areas rather than being spread across the country.

50. There is no “auditor of last resort” in England, unlike other UK public sector procurers of volume public audit services. Given the statutory nature of audit, and its obligation to make an auditor appointment to every opted-in body, PSAA will endeavour to encourage the market to bid in a manner which represents value for money for the public purse, without damaging sustainability.
51. When making auditor appointments following contract award, PSAA will consider the status of prior year audits and will be guided by the following principles:
 - ensuring auditor independence;
 - ensuring any contractually guaranteed levels of work are met;
 - ensuring a blend of authority types for each audit firm;
 - taking account of a firm’s principal locations (as specified in its tender response);
 - providing continuity of audit firm, where appropriate; and
 - accommodating joint/shared working arrangements between local bodies where possible.

Bidding rules relating to lots

52. In the interests of market sustainability, and subject to receiving sufficient bids and to the outcome of the evaluation of responses to the invitation to tender, PSAA expects to award no more than 35% of the aggregate value of its total portfolio (and potentially a lesser maximum percentage) to any single supplier. Ideally PSAA wants to enter into long term contracts with a larger number of suppliers than we do currently, reflecting a more balanced distribution of work. Our lot structure will aim to enable this, subject to us receiving sufficient bids. The exact number of lots that any successful bidder could be awarded will be set out in the invitation to tender documents.
53. Bidders will be required to indicate the maximum amount of work per annum that they are able/would be willing to deliver, as a percentage of PSAA’s total work based on 2021/22 scale fees. Where a bidder submits bids for multiple lots, this information would be used by PSAA to ensure that any bidder is not awarded work in excess of its stated capacity. In addition, bidders will be permitted to indicate that, should they win a lot, their bids for smaller sized lots are to be withdrawn.
54. Bidders will not be required to bid for all lots. However, they will be able to bid for all lots which fall within the range which they have specified as their maximum capacity.
55. PSAA will award contracts to a number of suppliers, to enable it to:
 - manage any independence issues that may arise when making auditor appointments to opted-in audited bodies;
 - respond to shared or joint working arrangements between audited bodies;

- make an appropriate auditor appointment to each opted-in audited body after fulfilling its statutory duty to consult such bodies on proposed appointments; and
 - support the drive for longer-term market sustainability.
56. Contract lots will be awarded to the suppliers submitting the most economically advantageous tenders i.e. assessed using a price/quality ratio.
57. Bidders will be invited to express their bids for each lot as a fixed proportion of the relevant ABNV. Bidders can submit a percentage value that is greater or less than 100%. Bidders will be able to submit different bid rate percentages for each lot.
58. PSAA recognises that the location of an audit is an important consideration for bidders. Bidders for all lots, other than the “development lots”, will therefore be able to select up to four geographical areas which would be least attractive/convenient for them to audit (from a pre-defined list of English County and Combined Authority areas²). PSAA would seek to avoid appointing the bidder, if successful, to audits within the selected geographic areas. In the event that it was necessary to appoint the bidder to any audits in those areas, the relevant bid rate would be increased by a premium of 30% in respect of the audits concerned.
59. It is recognised that bidders for the “development lots” may have the capacity to work in a relatively limited geographical area compared to larger suppliers. They will therefore be able to select up to 4 areas in which they would be able to undertake audits and provide details of any exclusions within those areas using the same predefined list of English County and Combined Authority areas.
60. Should either or both of the development lots not be awarded, PSAA would seek to offer the additional volume of work initially to the highest scoring winning bidder across all the lots and, if this is declined, to offer it to the second highest scoring winning bidder across the lots and so on working down through lot winning bidders.

Audit Fees

61. PSAA strongly believes the national, sector-led, collective scheme offers benefits to both audit services suppliers and eligible bodies. By opting into PSAA’s scheme, individual bodies will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members. Audit services suppliers avoid the expense of participating in multiple procurements and, where successful, the challenge of being subject to and managing a range of different contract management regimes.
62. PSAA’s costs of managing the scheme are covered by audit fees paid by opted-in bodies. Over the current contract term, from 2018 to 2023, our annual operating costs have averaged approximately 4% of total annual contract spend. We plan to continue to

² Counties (including any Councils or Other Relevant Local Bodies within the County area), and Combined Authorities (including any Councils or Other Relevant Local Bodies within the Combined Authority area)

manage our own costs appropriately and to ensure that the national scheme offers excellent value for its members.

63. PSAA will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties.
64. As a not-for-profit organisation, PSAA returns to opted-in bodies any surplus funds generated by the scheme after all costs have been met. This obligation is set out clearly in our articles of association. Our most recent distribution of surplus funds, totalling £5.6m was announced in August 2021.
65. PSAA expects to make a statement on the impact of the procurement outcome on 2023/24 scale fees following contract award in late Summer 2022.
66. PSAA will consult on the proposed scale of fees for 2023/24 and subsequently expects to publish the fees applicable no later than the end of November 2023, subject to approval of the anticipated amendment to the Appointing Person Regulations which would move the latest date by which audit fees must be set from 31 March to 30 November of the year to which the audit relates.
67. For each year of the contract, PSAA intends to increase the remuneration paid to its audit firms by reference to the annual increase in CPI.
68. Additional fees (fee variations) are part of the legal framework. They only occur if substantially more or less work is required than is envisaged in the scale fee or the auditor is entitled to recover costs or expenses from the audited body under specific provisions in the regulations, for example in relation to public interest reports or objection work.
69. The regulations require PSAA to consider every fee variation on a case-by-case basis. Over the past nine months we have made improvements to our internal processes to enable the handling of a larger number of claims and we will continue to review and make improvements where possible for the benefit of all parties.
70. PSAA reviews and robustly assesses each fee variation proposal. We apply our technical knowledge and experience of all audits to assess each submission and can compare with similar submissions for other bodies across all our audit suppliers before reaching a decision. Our process requires that fees for additional work are discussed with and explained to the audited body before they can be proposed to PSAA. The Regulations require that the proposals must be approved by PSAA before they can be invoiced.
71. PSAA will provide a copy of the current rate card with the invitation to tender. Each winning bidder will be remunerated for additional work for each lot that it wins at a rate equal to the current rate card multiplied by its bid rate for that particular lot.

- 72. PSAA will update the rate card through the appointing period in line with changes to scale fees that are not related to the level of work – for example, inflation.
- 73. The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies.

Procurement process

- 74. The key stages in the procurement process are set out below. In accordance with the Contract Regulations, PSAA will ensure that at each stage the process complies with the requirements of equal treatment, non-discrimination, transparency, and proportionality.
- 75. PSAA will use the Delta e-tendering platform to undertake this procurement.

Timetable and key milestones

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

Table 1 – indicative procurement timetable

Key milestone	Target Date
Publish Contract Notice and issue documentation on request	w/c 7 February 2022
Deadline for submission of Selection Questionnaires	w/c 14 March 2022
Issue invitation to tender to short-listed suppliers	w/c 4 April 2022
Deadline for submission of tenders	w/c 11 July 2022
PSAA Board approval of contract awards, assuming a satisfactory outcome	August 2022

- 77. Following a statutory consultation process auditor appointment for opted-in bodies will be made by 31 December 2022 for audit years from 2023/24.
- 78. This timetable is consistent with the requirement set out in the Local Audit and Accountability Act 2014, for an authority to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

Contract Notice

- 79. The purpose and scope of the procurement will be set out in the Contract Notice to be published on the Find A Tender Service and Contracts Finder.

Pre-qualification (selection) stage

80. The pre-qualification (selection) stage will be designed to enable PSAA to assess potential audit suppliers' ability to meet PSAA's requirements.
81. The selection questionnaire evaluation criteria will be:
 - compliance with grounds that would otherwise lead to mandatory or discretionary rejection under the Contract Regulations;
 - satisfactory organisational, financial and economic standing and insurance arrangements;
 - capability and capacity;
 - technical and professional knowledge and experience; and
 - eligibility for appointment under the Act and Regulations, either through being registered with ICAEW or going through the process of registration.
82. Evaluation at this stage will result in a pass or fail outcome for each potential supplier. All suppliers achieving a pass outcome will be invited to tender.

Tender stage

83. The tenders for each lot will be evaluated in accordance with the published evaluation criteria to identify the most economically advantageous tenders. The relative weighting of price and quality will be 20:80 with 5 marks of the 80 quality marks being attributed to social value, which equates to 5% of the overall score. PSAA plan to ask bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.
84. The quality of responses at tender stage will be assessed against a range of relevant criteria such as audit approach, quality assurance, client communications and resourcing and capacity & capability including sector knowledge. Aligned with the Government's proposal that the ARGA become the local audit system leader, we will seek the FRC's input in developing our approach.
85. Bidders will only be requested to provide one response to the quality section of the tender irrespective of the number of contract lots they bid for, although some questions may require a lot-specific response. The "development lots" will be assessed against the same criteria but in some areas may have a different assessment focus requiring a separate response from bidders interested in these lots.
86. The formal tender evaluation criteria and methodology will be described in the invitation to tender documentation, and published on the PSAA website.

Establishment of a Dynamic Purchasing System (DPS)

87. Alongside the publication of a Contract Notice for the main audit services procurement outlined above, PSAA will publish a second, separate Contract Notice to establish a DPS.
88. The form of selection questionnaire used for the main audit services procurement would include a box that bidders could tick to signal their agreement to automatically qualify to participate in the DPS if they pass the pre-qualification stage of the main audit services procurement.
89. Once the DPS is established, a supplier that is not a member of the DPS (e.g. a firm that decided not to tick the box on the main procurement selection questionnaire or a new supplier to the local audit market) could apply to join at any point during the DPS's period of validity if they satisfy the selection requirements, and none of the grounds for exclusion apply. PSAA would evaluate the supplier's selection questionnaire within the legally required timescale of 10 working days of receipt unless there are justifiable reasons for an extension.
90. The establishment of a DPS has the potential to offer several benefits over the life of the term of the contracts awarded from the main audit services procurement:
 - provide an alternative to the current practice of automatically seeking to distribute additional audits between contracted firms, for example, in the event of local government reorganisation, or if existing bodies request to join the scheme after the initial opt-in invitation and procurement processes;
 - enable suppliers who are not awarded a contract from the main audit services procurement to bid for PSAA work, so they are not "locked out" (and provide winning suppliers the opportunity to bid for further audits);
 - enable consideration of different contract durations and the potential to stagger future tenders, subject to the proposed changes to the Regulations being implemented; and
 - should any of the 2017 audit services contracts need to be extended, provide a mechanism through which to undertake the procurement of services for the audits beyond 2023/24 or 2024/25.
91. Additionally, the DPS will provide a potential option in the event of not receiving sufficient bids to the main audit services procurement.
92. PSAA do not intend to use the DPS to procure replacements for auditor appointments made as part of the 2022 contract award before the end of the contract's duration unless there is a specific reason for doing so. Such reasons might include the identification of an independence conflict, the breakdown of auditor-audited body relationship, or as a result of a supplier's poor performance in line with agreed contract terms.
93. The key characteristics of any procurement undertaken through the DPS are likely to be very similar to those used for the main procurement, for example the evaluation ratio of 20:80, price to quality. Clearly there will also need to be some differences, for example, to reflect that a DPS procurement may be for an individual audit, small group of audits

or a more significant volume of work. All procurement documentation will be available when the Contract Notice for the DPS is published at the same time as the Contract Notice for the main procurement in early February 2022.

94. PSAA expect the DPS to become operational during May 2022, and intend to maintain it throughout the next contract period.

Appendix - Risk Allocation Matrix

Introduction

The allocation and management of risk is central to all commercial contracts and is one of the core commercial principles informing the approach to contracting with third parties. Each party seeks to minimise its overall risk and maximise its reward, which creates an inherent tension between contracting parties. Effectiveness and value for money of contracted services will only be achieved where risk allocation is appropriate and where the party managing the risk is the one most reasonably able to do so.

Purpose

PSAA produced this risk allocation matrix to inform the development of its commercial model and pricing approach for contract of audit services to deliver the national scheme for local auditor appointments from April 2023. It sets out PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.

Review

The risk allocation matrix will be reviewed periodically up to the point that the procurement is initiated where appropriate in the light of comments from audit firms and to ensure that it reflects the emergence of new information and any changes in circumstances.

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
1.	Data inaccuracy Risk that inaccurate (or incomplete) data is provided to bidders during the procurement exercise leading to inaccurate pricing or solution.	<ul style="list-style-type: none"> PSAA will make available the latest information about the audits at the commencement of the procurement, e.g. the most recent audit year completed, the scale fee and the nature and extent of recurring fee variations that are already baked into the scale fee but do not warrant the accuracy of this information. PSAA will adjust the ABNV to reflect any inaccuracies subsequently discovered in this information (see 12 below). 	•	
2.	Inflation Risk that the cost of supplier's inputs will rise over time due to inflation.	<ul style="list-style-type: none"> The contract will provide indexation on the price paid to audit firms based on the annual application of the prevailing rate of CPI. There is also an inflation risk for the audit firm; the cost pressures they experience may exceed their estimates and any allowance provided by an index-based adjustment. 		shared

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
3.	Performance / availability Risk that the service will not be delivered to the requisite performance/availability levels.	<ul style="list-style-type: none"> • Audit firms must deliver the service in accordance with the NAO's Code of Audit Practice and all regulatory requirements e.g. of the FRC. • The contract will include a performance measure that relates to the audit firm's stated capacity to deliver to a number of audits equal in value to the lot size plus a margin (say 5% of the lot size) for audits awarded before the end of 2022. The availability of sufficient audit resources is a supplier risk. 		•
4.	Volume /demand Risk that the actual usage of the service is less than the guaranteed minimum.	<ul style="list-style-type: none"> • Local bodies that decide to opt into PSAA's scheme are then statutorily committed to remain in the scheme for the full appointing period of five years, unless they are abolished under local government reorganisation. • Contractual provision will guarantee a minimum volume of work. 	•	
5.	Volume /demand Risk that the actual usage of the service is greater than the lot size plus a small margin (say 5%) for audit awards before the end of 2022.	<ul style="list-style-type: none"> • PSAA may only award work in excess of this figure with the supplier's agreement. 	•	
6.	Volume/demand Substantial additional work.	<ul style="list-style-type: none"> • PSAA will pay for substantial additional work and certain statutory actions as defined in the Appointing Person regulations namely <ul style="list-style-type: none"> ○ the consideration of the making of and the making of a public interest report or a written recommendation under Schedule 7 of the 2014 Act; ○ the exercise of any functions under section 27 of the 2014 Act in relation to the right to make objections at the audit; ○ any application to the court under section 28 of the 2014 Act for a declaration that an item of account is contrary to law or any appearance as respondent to any appeal against such a declaration; ○ the consideration of the issue of and any issue of an advisory notice under Schedule 8 of the 2014 Act; ○ any application for judicial review under section 31 of the 2014 Act or any appearance as respondent to any application for judicial review made in respect of the exercise of the auditors' functions. 	•	

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
		<ul style="list-style-type: none"> Substantial additional work will include future regulatory and code related changes unless notified to bidders in the ITT. 		
7.	Change in law	<ul style="list-style-type: none"> The supplier mostly takes this risk. The supplier shall neither be relieved of its obligations to supply services under the contract nor be entitled to an increase in charges as the result of the general change in law. 	.	•
8.	Performance risk Risk that the services have/project has not been planned adequately for the purpose required or are not properly performed.	<ul style="list-style-type: none"> Audit firms will have the responsibility for the adequacy of the planning and performance of the service provided and their compliance with the output/performance specification. The scope of local audit is fixed by third parties. It is determined by the requirements of the: <ul style="list-style-type: none"> NAO's Code of Audit Practice which sets the scope of the audit; The Code of Practice on Local Authority Accounting published by CIPFA/LASSAC which sets the format of the financial statements; HM Treasury in respect of the arrangements for Whole of Government Accounts; and FRC (expected to become ARGA in the year this contract starts) who regulate the work of auditor in the application of International Auditing Standards. PSAA intends to establish a series of KPIs as part of its contract management arrangements. 		•
9.	Delivery risk Risk that the delivery of the audit does not meet planned timescales.	<ul style="list-style-type: none"> The Accounts & Audit Regulations effectively set a target date for completion of the audit. The past two years (2018/19 and 2019/20) have featured high levels of delayed opinions as a result of a variety of factors. As a result there is a current backlog of outstanding opinions. Audit firms must meet the target dates unless there are good reasons outside their control such as the poor preparation of audit papers or the need for statutory actions. 		shared risk

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
10.	<p>Scope of the Contract</p> <p>Audits are not allocated until after contract award.</p> <p>Audits are awarded remote from the audit firm's principal office.</p>	<ul style="list-style-type: none"> • Current thinking is that contract lots will be based on work of a specified value of work that is populated with named audits, reflecting a blend of authority types, after completing the tender evaluation process, in consultation with both winning firms and bodies. We are aware that audit firms expressed a preference for bidding for audits on a geographic basis. However, having considered this approach thoroughly we have concluded that it is likely to put at risk the statutory requirement on the appointing person to appoint an independent auditor to every opted-in authority. We intend to introduce a mechanism to enable bidders to reflect geographical preferences in their bids. In addition, when making auditor appointments following contract award (and therefore with audit quality matters already having been assessed), PSAA will have regard to the status of prior year audits and will be guided by the following principles: <ul style="list-style-type: none"> ○ ensuring auditor independence; ○ ensuring any minimum guarantees of work are delivered; ○ ensuring a blend of authority types for each audit firm; ○ taking account of a firm's principal locations (as specified in its tender response); ○ providing continuity of audit firm, where appropriate; and ○ accommodating joint/shared working arrangements where possible. 		<ul style="list-style-type: none"> •
11.	<p>The audit services fee</p> <p>Pricing for Code compliant audits where there is no substantial additional or lesser work or no statutory actions.</p>	<ul style="list-style-type: none"> • The ITT will ask for prices based on the "audited body notional value" for 2021/22. The ABNV is the scale fee for 2021/22 plus any recurring fee variations that have subsequently been approved. • The winning bidder of each lot will be remunerated for their work to deliver Code compliant audits at a rate equal to the ABNV for that lot multiplied by its bid rate for that lot. • Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, PSAA propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body 		<ul style="list-style-type: none"> •

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
	Valuation of substantial additional work.	<ul style="list-style-type: none"> for this purpose). PSAA cannot anticipate scale fees for the next appointing period at this stage because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale. The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies. The winning bidder of each lot will be remunerated for additional work at a rate equal to the current rate card (which will be included in the ITT) multiplied by its bid rate for that lot. The rate card will be updated through the appointing period in line with changes to scale fees that are not related to the level of work – for example, inflation. 		
12.	Termination Risk that PSAA will terminate (or partially terminate) the contract early i.e. before the end of the initial contract term.	<ul style="list-style-type: none"> Contractual provisions describe the conditions under which termination would be invoked, covering: <ul style="list-style-type: none"> Insolvency or change of control Material irremediable or unremedied breach Persistent failure Corruption, bribery, or discrimination Serious security risk Legislative changes. 		<ul style="list-style-type: none">
13.	Subcontractor insolvency Risk that a subcontractor within the supplier's or subcontractors' supply chain becomes insolvent during the course of the contract term.	<ul style="list-style-type: none"> The audit firm must take this risk as it is responsible for its own supply chains. Failure in the subcontractor supply chain is explicitly excluded from the definition of a 'Force Majeure Event'. 		<ul style="list-style-type: none">

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
14.	Industrial action Risk of industrial action including by any of the supplier's staff.	<ul style="list-style-type: none"> The audit firm must take this risk as it is responsible for its own employee relations and it has the ability to control and it is a core element of service delivery. An industrial dispute relating to the audit firm's (or any subcontractor's) personnel is explicitly excluded from the definition of a 'Force Majeure Event'. The audit firm must also take the risk of disruption by other industrial action e.g. the transport network but not industrial action at PSAA or the audited body. 		<ul style="list-style-type: none">
15.	Force majeure Risk of unforeseen events outside of the reasonable control of the supplier, that affect the supplier's ability to deliver any aspect of the contract to requirement time, budget, and performance.	<ul style="list-style-type: none"> Neither Party shall be liable to the other Party for any delay in or failure to perform its obligations under the Contract (other than a payment of money) if such delay or failure results from a Force Majeure Event. Each Party shall use all reasonable endeavours to continue to perform its obligations hereunder for the duration of such Force Majeure Event. However, if any such event prevents either Party from performing all of its obligations under the Contract for a period in excess of six (6) Months, either Party may terminate the Contract by notice in writing with immediate effect. 		shared risk

STANDARDS AND AUDIT COMMITTEE – 25 NOVEMBER 2021

UPDATE ON EXTERNAL AUDIT

Executive Summary

Attached is an update from the Council's External Auditor, BDO, on the progress of the External Audit.

Recommendations

The Committee is requested to:

RESOLVE That the update be received.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

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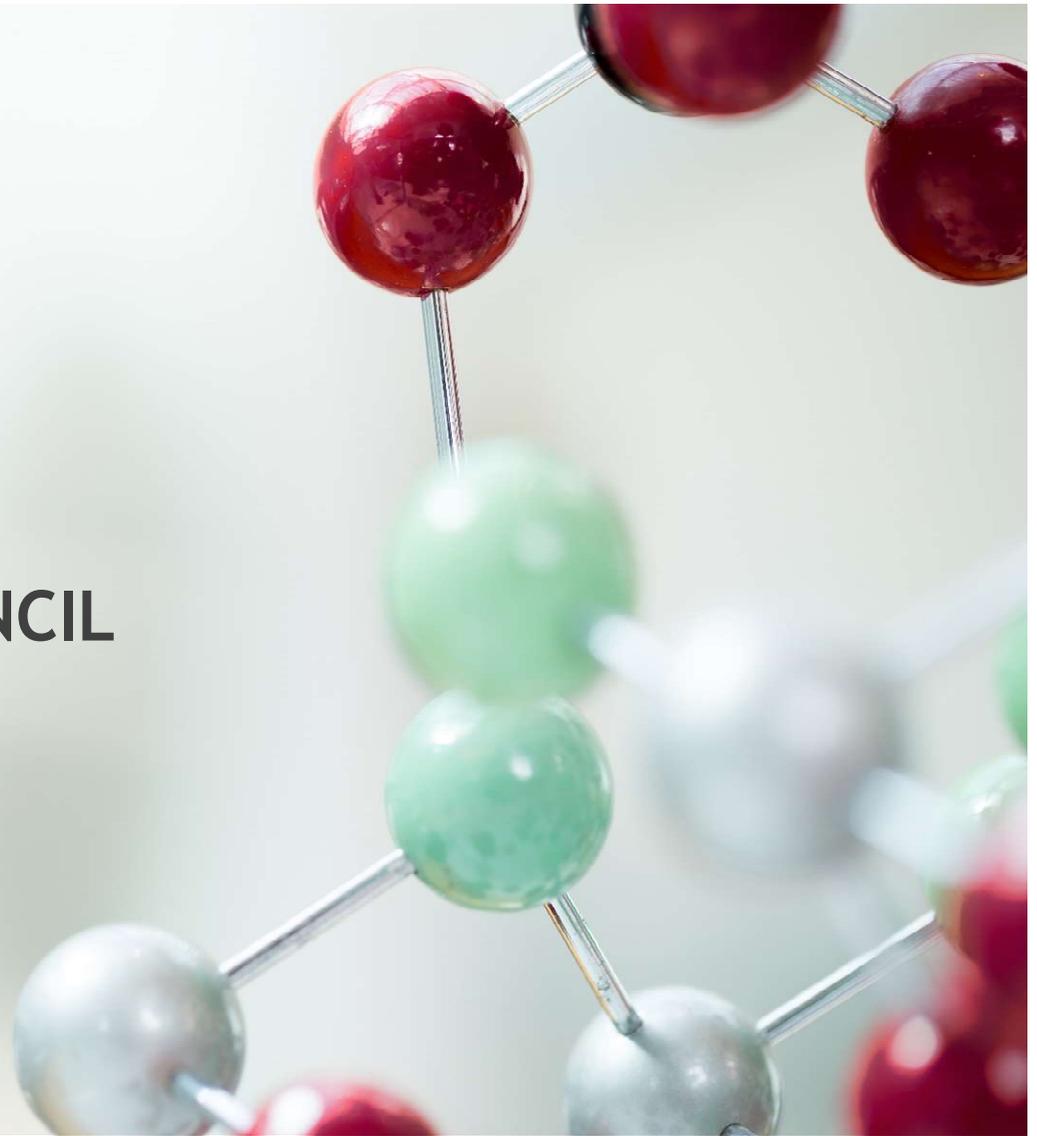
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Date Published: 17 November 2021

Report to the Standards & Audit Committee

WOKING BOROUGH COUNCIL

Audit Progress Report



PROGRESS UPDATE

The purpose of this report is to provide members of the Standards and Audit Committee with an update on the progress of our 2019/20 and 2020/21 audits.

This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two-way communication throughout the audit process with those charged with governance.

We look forward to discussing this report with you at the Standards and Audit Committee meeting on 25 November and to receiving your input. In the meantime if you would like to discuss any aspects of this report in advance of the meeting we would be pleased to do so.

2019/20 audit

At the September 2021 meeting of the Committee I noted that we expected to be in a position to report the results of our 2019/20 audit to the November meeting. We are not yet in a position to do this. A number of factors have contributed to this, including the availability of our staff, and the ability of the Council to prepare group financial statements.

We will be undertaking further work on the Woking audit during November and December 2021. This will enable us to make further progress on testing the transactions and balances within the Council's single entity financial statements.

Members will also be aware that all of the 2019 audits of the Council's subsidiary entities have now been completed (the three that were outstanding were completed in October 2021). As noted above, the Council are now in a position to be able to prepare group financial statements that consolidate the Council's wholly owned subsidiary entities.



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PROGRESS UPDATE



Our independent auditor's report covers the Council's group accounts, and as part of our audit of the group, we will:

- Test the consolidation, including any consolidation adjustments (including these made to reflect differing period end dates for the Council and its subsidiaries); and
- Review the work undertaken by the subsidiary auditor.

Again, this work will continue throughout November and December 2021, subject to the availability of consolidated financial statements and working papers. We will keep the Finance Director and the Chair of the Committee updated on the progress of this work.

2020/21 audit

Our audit of the Council's 2020/21 financial statements has not yet commenced. This work is scheduled to be completed during the period January - March 2022, following completion of our 2019/20 audit.

Similar to our 2019/20 audit, our ability to conclude this audit is dependent on the availability of group financial statements, though we note that the audit for the 2020 accounts were recently finalised.

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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STANDARDS AND AUDIT COMMITTEE – 25 NOVEMBER 2021

INTERNAL AUDIT PROGRESS REPORT

Executive Summary

The Woking Borough Council Financial Regulation 2.8 requires that the Chief Finance Officer (Finance Director) shall regularly report to the Standards and Audit Committee (Committee) on the work undertaken by Internal Audit. Similarly, under the Internal Audit Charter approved by the Committee, it is a requirement that Internal Audit provides a quarterly report on internal audit progress and key findings to the Committee.

This report covers audit activity and performance from 4 September to 5 November 2021.

Recommendations

The Committee is requested to:

RESOLVE That the report be received and progress against the 2021-22 Internal Audit Plan and implementation of Internal Audit recommendations be noted.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

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Date Published: 17 November 2021

Implications

Financial and Risk

There are minimal financial implications regarding the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control.

Internal Audit identifies weaknesses in the control environment. Implementation of recommendations, therefore, improves the control environment and hence the management of risk.

Human Resources and Equalities

Some audit recommendations need officer resources to put in place. There is minimal impact on equalities issues.

Legal

The professional responsibilities of internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).



Woking Borough Council - Internal Audit Progress Report
For the September to November 2021 Period
November 2021

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Disclaimer

This report (“Report”) was prepared by Mazars LLP at the request of Woking Borough Council (Council), and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently, no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of the Council, and to the fullest extent permitted by law, Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

01 Introduction

The Woking Borough Council (Council) Financial Regulation 2.8 requires that the Chief Finance Officer (Finance Director) shall regularly report to the Standards and Audit Committee (Committee) on the work undertaken by Internal Audit. Similarly, the Internal Audit Charter approved by the Committee requires that Internal Audit provide a quarterly report on internal audit progress and key findings to the Committee.

The Committee approved the 2021/22 Internal Audit Plan (Plan) on 4 March 2021. The purpose of this report is to outline the following in respect of Internal Audit Activity during the period:

- An update on progress in delivering the 2021/22 internal audit plan;
- A summary of any Limited/Unsatisfactory Assurance reports issued and high priority recommendations raised; and
- An update on follow up activity and any recommendations outstanding for implementation.

This report covers internal audit activity and performance from 4 September 2021 to 5 November 2021.

02 Internal Audit Progress

Since the last Committee, progress against the Plan remains on track. All audits planned for Q2 and Q3 are either finalised, at draft report stage or in progress in line with the expectations from Council Leadership Team (CLT).

As previously reported in September to the Committee, the Victoria Square audit was replaced by the HIF Project review. Also, as previously reported, there were two audits from the plan (allocated in Q2) that did not start as initially planned. These are:

- *Careline*: The Health & Wellbeing Manager and Housing Director requested the audit be deferred to Q2 in 2022 due to the Operational Manager being off-sick and also, the service changing their contracted provider in April 2022. We discussed and agreed with the Finance Director

that this audit will be re-scheduled to start in Q2 next year to ensure the audit provides the most value.

- *ThamesWey Corporate Debt Management*: Following discussions with ThamesWey's Chief Financial Officer, this audit will be included in next year's IA Plan. The scope was not considered a priority and concerns initially raised during January 2021 were now addressed. We discussed and agreed with the Finance Director that this audit will be re-scheduled for next year.

The table below provides a summary of progress relevant to the 2021/22 Plan:

Audit Status	Number of reviews	Percentage %
Finalised	3	18%
Draft	2	12%
Fieldwork in progress	4	23%
Not yet started	8	47%
Total	17	100%

As of 5 November 2021, 53% of the Plan was delivered to at least draft report stage or being delivered with work in progress. Further detail of the audits, progress and timing, is included in **Appendix A1** of this report.

03 Audit Reports Issued

We have four categories by which we classify internal audit assurance over the processes we examine: Substantial, Moderate, Limited or Unsatisfactory reviews. Further details on these categories is included at **Appendix A3**.

In our previous Progress Report for (September 2021) we highlighted five reports at draft stage. Three of these had now been finalised (Capita Open Housing, OSC Effectiveness Review and Insurance). However, a further two reports remain at draft (Covid-19 Lessons Learned and Risk Management).

Council Officers had been reminded of the outstanding reports and this has also been escalated with the Finance Director.

Three further reports were issued in the period since the last Committee, two of which had been finalised (Homesafe Plus and Housing Benefits). The remaining report draft relates to the HIF Project.

The table below shows the reports outstanding and also those issued in the period:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2020/2021 Internal Audit Plan				
Covid-19 Lessons Learned*	N/A - Advisory	-	-	-
Risk Management*	Satisfactory	-	4	1
Capita Open Housing (IT)	Satisfactory	-	7	-
2021/2022 Internal Audit Plan				
Insurance	Limited	-	6	2
OSC Effectiveness Review	N/A - Advisory	-	-	-
Homesafe Plus	Moderate	-	1	1
Housing Benefits	Substantial	-	-	1
HIF Project*	Limited	3	3	-
Total		3	21	5

* Draft reports currently awaiting management responses, which may lead to changes in content, including assurance levels and/or recommendations

Internal Audit categorises recommendations as High, Medium or Low priority to differentiate between the types of recommendation made. These

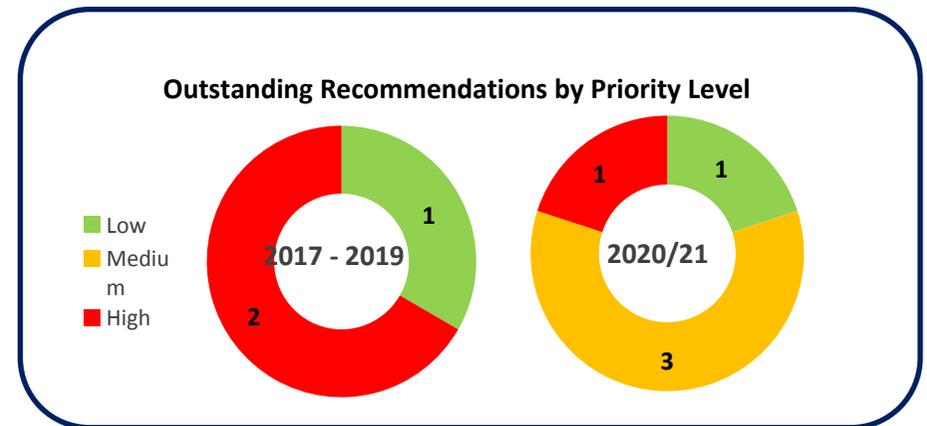
categories give management an indication of the importance and urgency of implementing the recommendations.

As shown in the table above, three High Priority recommendations were raised in the draft report which has been shared with the Overview and Scrutiny Committee for their meeting on 22 November. Further details of recommendations raised can be found in the summary reports for each audit provided separately to Members.

04 Follow-Ups

Since the last Committee meeting, the Council’s Action Management system has continued to be populated with new recommendations from finalised internal audit reports.

As of 8 November 2021, there are eight outstanding recommendations in Action Management (i.e. recommendations that are past their initially agreed implementation dates). Priorities are as follows:



The three high priority relate to Counter-Fraud and PCI Security Standards and were not implemented within the initially agreed dates. However, discussions with the responsible officers indicated various circumstances delaying their implementation. The revised dates for implementing these remain the same as those reported to the Committee in September.

We presented a report listing all outstanding recommendations to the Council's CLT on 15 November 2021 ahead of this Committee Meeting. Relevant Officers assigned to implement all outstanding recommendations were reminded to update the Action Management System with progress on implementing these.

In addition to monitoring management updates on progress within Action Management, Internal Audit can undertake spot checks to confirm that recommendations are being implemented in practice. A procedure is in place to escalate recommendations that have not been implemented as agreed to CLT and finally to this Committee where necessary.

Further detail of outstanding high-priority recommendations is included in **Appendix A2** of this report.

05 Other Matters

This section is used to set out other matters which may be of interest to the Committee and in **Appendix A4** we have provided details on a recent report produced by Mazars on social value and the issues faced by public and social sector organisations.

Social value has always been at the heart of the public and social sector, it defines its meaning and purpose. ESG (referring to environmental, social and governance matters) is an increasingly common term and is quickly penetrating the public and social sector. ESG is a huge opportunity for sector transformation to reposition environmental and social value at the forefront of decision making across an entire organisation.

Failure to identify and effectively manage ESG-related risks poses serious threats to an organisation's ability to achieve its strategic objectives. In addition, there are wide-ranging opportunities to be seized in the ESG space such as talent attraction and retention, access to funding and increased sustainability and resilience.

Sustainability and ESG encompass a much wider remit than social value. This may be causing confusion as leadership teams struggle to articulate this remit, how best to manage its implementation, and in many cases how to get started. This is particularly true of achieving net zero, which we address in our report.

A1 Current Progress – 2021/22 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Insurance	Final	Limited	-	6	2
OSC Effectiveness Review	Final	N/A - Advisory	-	-	-
Private Water Supply	Cancelled (Reported to Committee 08/09/2021)	-	-	-	-
Homesafe Plus	Final	Moderate	-	1	1
Careline	Deferred to 22-23	-	-	-	-
Housing Benefits	Final	Substantial	-	-	1
Green Jump Surrey	Starts 29/11/2021		-	-	-
HIF Project Assurance (Replaced Victoria Square review in Plan)	Draft*	Limited	2	2	-
Building Control	In progress		-	-	-
Taxi Licensing	In progress		-	-	-
Air Pollution	In progress		-	-	-
Key Financial Systems	In progress		-	-	-
Thameswey Debt Management	Deferred to 22-23	-	-	-	-
Disabled Facilities Grant (DFG)	Starts 24/01/2022		-	-	-
Temporary Accommodation	Starts 24/01/2022		-	-	-
Capital Programme	Starts 07/02/2022		-	-	-
Business Planning	Starts 14/02/2022		-	-	-
Corporate Debt Management	Starts 21/02/2022		-	-	-

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
IT					
Office 365	Starts in December 2021		-	-	-
Cyber Security	Starts in January 2022		-	-	-
Total			2	9	4

*Draft reports currently awaiting management responses, which may lead to changes in content, including assurance levels and/or recommendations

A2 Outstanding High Priority Recommendations (Past Implementation Date)

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
1	<p>Fraud risk identification is essential in order to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the Council and its service users.</p> <p>Although it was apparent that staff involved in counter fraud work are aware of fraud risks facing the Council, how they may occur and how they should be managed, the Council has not undertaken a formal fraud risk assessment.</p> <p>Where a fraud risk assessment is not undertaken, the Council may not be directing its counter fraud activity at the areas of greatest risk. Without a risk assessment and also a low number of reported cases of fraud, this may provide a false impression on the prevalence of fraud.</p>	<p>A fraud risk assessment should be undertaken so as to provide a basis for prioritising counter fraud activity. The Council should use published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposure. This information should be used to evaluate the harm to the aims and objectives of the Council that different fraud risks may cause.</p> <p>The risk assessment should be reviewed periodically (at least annually) and reported to CMG.</p>	High	<p>Agreed. A Fraud risk assessment will be completed to inform future counter fraud work.</p> <p>November 2020: This has been delayed by the focus on responding to the Covid-19 pandemic. The Fraud team from Reigate and Banstead Borough Council are being engaged to assist the Council in undertaking this risk assessment.</p> <p>February 2021: It has not been possible to progress this work in the previously agreed revised timescale, however this will be made a priority over the next month.</p> <p>June 2021: An approach has been agreed with the Reigate & Banstead/Oxford City Council Counter Fraud & Investigations Partnership. The initial work will cover the Fraud Risk Assessment, Framework for the Counter Fraud Strategy, staff training and assessment of</p>	<p>31 March 2020</p> <p>Director of Finance</p> <p>Revised timescale:</p> <p>31 December 2021</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
				processes in identified high risk areas and will be completed over a 3 month period.	
2	<p>Organisations require a counter fraud strategy to set out their approach to managing fraud risks and defining responsibilities for action. Although the Council has an Anti-Fraud and Corruption Policy, a Counter Fraud and Corruption Strategy has not been developed setting out the Council's approach to managing the risk of fraud.</p> <p>The Local Government Transparency Code 2015 requires the annual publication of data relating to the Council's counter fraud work; however, we were unable to locate any transparency data related to fraud.</p> <p>Where the Council does not have a Counter Fraud and Corruption Strategy, actions, responsibilities and accountability may be unclear. As a result, the fraud risks the Council is exposed to may not be managed effectively.</p>	<p>A Counter Fraud and Corruption Strategy should be developed to address the fraud risks identified (see recommendation 1). The strategy should include a mixture of both proactive and reactive approaches that are best suited to addressing the Council's fraud and corruption risks. Proactive and reactive components of a good practice response to fraud risk can be found in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption.</p> <p>The strategy should include clear identification of responsibility and accountability for delivery of tasks within the strategy, and also for providing oversight.</p> <p>A report should be prepared for CMG and the Standards and Audit Committee (or another suitable committee) at least annually on performance against the counter fraud strategy.</p> <p>The Council should also comply with the Local Government Transparency Code</p>	High	<p>Agreed, once the risk assessment (recommendation 1) has been completed, a Counter Fraud and Corruption Strategy will be prepared.</p> <p>November 2020: This has been delayed by the focus on responding to the Covid-19 pandemic. The Fraud team from Reigate and Banstead Borough Council are being engaged to assist the Council in developing an appropriate Strategy following completion of the risk assessment.</p> <p>February 2021: It has not been possible to progress this work in the previously agreed revised timescale, however this will be made a priority over the next month.</p> <p>June 2021: An approach has been agreed with the Reigate & Banstead/Oxford City Council Counter Fraud & Investigations Partnership. The</p>	<p>30 June 2020</p> <p>Director of Finance</p> <p>Revised timescale:</p> <p>31 December 2021</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
		2015 requirement to publish data relating to the Council's counter fraud work.		initial work will cover the Fraud Risk Assessment, Framework for the Counter Fraud Strategy, staff training and assessment of processes in identified high risk areas and will be completed over a 3 month period.	

Cash Collection and Receipting Systems					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
1	<p>The PCI DSS consist of twelve significant requirements including multiple sub-requirements which contain numerous directives against which businesses may measure their own payment card security policies, procedures and guidelines.</p> <p>As an Authority, the Council take payments over the phone. As a result, the Council should complete and submit their Self-Assessment Questionnaire type C (SAQ-C). However, the IT Consultant</p>	In line with the PCI Security Standards Council, the Council should undertake a self-validation exercise through the completion of a SAQ-C questionnaire to assess titts security for cardholder data and submit this results together with any issues/non-compliance identified and remedial actions.	High	<p>The principles for PCI DSS cover more than the ICT aspects of payment processing, specifically:</p> <ul style="list-style-type: none"> • Data security user training • Up to date data protection, cyber security and incident management plans • Business area procedural manuals <p>Following a workshop in 2018, work was started to complete the PCI DSS SAQ. Without the above areas</p>	<p>31 December 2020</p> <p>ICT Business Manager</p> <p>Revised timescale:</p> <p>31 March 2022</p>

Cash Collection and Receipting Systems					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
	<p>Application Support advised there are currently no arrangements in place to submit the SAQ-C.</p> <p>Failure to monitor and address compliance issues could result in the loss of PCI accreditation which could mean that the Council may not be able to promote its accredited service and therefore customers may lose confidence on the Council's payment processing service leading to financial loss and reputational damage.</p>			<p>being addressed, the form was not submitted.</p> <p>If the Council prioritises and allocates resources to progress the above areas then ICT can facilitate completion of the SAQ's.</p> <p>December 2020:</p> <p>The services of a PCI DSS Qualified Security Assessor have been procured from Sysnet to work with the Council to complete the SAQ and assist with identifying areas where further work is needed to mitigate any identified risks. The work will be undertaken from January 2021 with an estimated completion date of 31st March 2021.</p> <p>March 2021:</p> <p>The assessor was unable to start work until February so the report was delayed and has not yet been received. Meetings have been held with business areas and work already identified as required has been agreed by CMG. An new revised due date of 31/07/21 is proposed</p>	

Cash Collection and Receipting Systems

Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
				<p>September 2021:</p> <p>The company Sysnet, that was providing the consultancy and report for PCI Compliance has been bought out and staff dealing with WBC have all left. I have been unable to get a response since June and have given notice that failure to produce the full report by the 31/08/21 will be considered breach of contract. We will need to start again with another supplier.</p>	

A3 Definitions of Assurance

Definitions of Assurance Levels	
Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

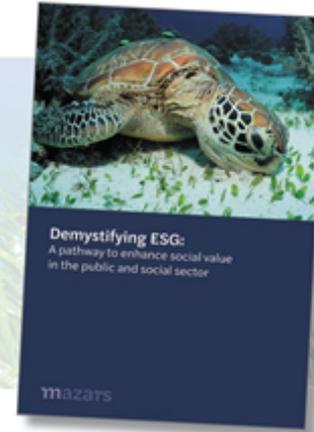
Definitions of Recommendations		
Priority	Definition	Action required
High (Fundamental)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Significant)	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

A4 Demystifying ESG – A pathway to enhance social value in the public and social sector

Our latest research, based on a survey of 57 public and social sector leaders, highlights the challenges and progress being made with ESG. The report is available to download via the link below and focusses on the issues specifically faced by public and social sector organisations.

Demystifying ESG

[Download here](#)



STANDARDS AND AUDIT COMMITTEE – 25 NOVEMBER 2021

INTERNAL AUDIT CHARTER

Executive Summary

The Internal Audit Charter (Charter) is a formal document that defines the Internal Audit's purpose, authority, and responsibility and is required under the UK Public Sector Internal Audit Standards (PSIAS). The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Standards and Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities.

Best practice is for the Charter to be presented annually for approval and which is set out at Appendix 1.

Whilst there has been some minor updates by way of abbreviations of key terms, the substantive content of the Charter has not changed from the one presented and approved in November 2020.

Recommendations

The Committee is requested to:

RESOLVE That the Internal Audit Charter be approved.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

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Date Published: 17 November 2021

STA21-019

1.0 Introduction

- 1.1 The Internal Audit Charter (Charter) is a formal document that defines the Internal Audit's purpose, authority, and responsibility and is required under the UK Public Sector Internal Audit Standards (PSIAS). The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Standards and Audit Committee (SAC); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities.
- 1.2 Best practice is for the Charter to be presented annually for approval and which is set out at Appendix 1. This is presented to the Corporate Leadership Team, before then being presented to the SAC for final approval.
- 1.3 Whilst there has been some minor updates by way of abbreviations of key terms, the substantive content of the Charter has not changed from the one presented and approved in November 2020.

2.0 Implications

Financial and Risk

- 2.1 There are minimal financial implications regarding the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control. Internal Audit identifies weaknesses in the control environment. Implementation of recommendations, therefore, improves the control environment and hence the management of risk.

Human Resources and Equalities

- 2.2 Some internal audit recommendations need a resource to put in place. There is minimal impact on equalities issues.

Legal

- 2.3 The professional responsibilities of internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).

REPORT ENDS

Woking Borough Council

Internal Audit Charter

November 2021



Introduction

The Internal Audit Charter (Charter) sets out the terms of reference and serves as a basis for the governance of Woking Borough Council's (Council) Internal Audit function. It sets out the function's purpose, authority, and responsibility in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The Charter will be reviewed and updated annually and presented to the Standards and Audit Committee (SAC) for approval.

The PSIAS includes a Mission for Internal Audit which is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

Nature and Purpose

The Council has developed a risk management framework which includes:

- Identification of the significant risks in the Council's operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Periodic reviews by the Corporate Leadership Team (CLT) of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the Council's risk profile.

A system of internal control is one of the primary means of managing risk. Consequently, the evaluation of its effectiveness is central to Internal Audit's responsibilities.

The Council's internal control system comprises the policies, procedures and practices, as well as an organisational culture that collectively supports the Council's effective operation in the pursuit of its objectives. The risk management, control, and governance processes enable the Council to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the CLT.

The Council needs assurance over the significant business risks set out in the risk management framework. Also, many other stakeholders, both internal and external, require assurance on the management of risk and other aspects of the Council's business, including Members and regulators. There are also many assurance providers. The internal audit function is the third line of defence in the Council's 'three lines of defence approach' to risk and assurance. The first line of defence comprises the Council's core operational services, and the second line includes the oversight functions such as risk management.

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by

bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Within the Council, Internal Audit Services, including the Head of Internal Audit (HoIA) role on behalf of the Council, are contracted out and delivered by Mazars LLP. Internal Audit provides independent and objective assurance to the organisation, its Members, the Chief Executive, the CLT, and the Chief Finance Officer to help them discharge their responsibilities relating to the proper administration of the Authority's financial affairs under S151 of the Local Government Act 1972.

Also, the Accounts and Audit Regulations (2015) specifically require the provision of internal audit services. In line with regulations, Internal Audit provides independent assurance on the adequacy and effectiveness of the Authority's governance, risk management and internal control systems.

In particular, Internal Audit carries out assurance and consulting activities across all aspects of the Council's business, based on a programme agreed with the SAC. In doing so, Internal Audit works closely with the Authority's risk owners, service line risk teams, and the CLT.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the Council's existing processes and procedures can be developed to improve how risks in these areas are managed. Public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the CLT and management in the service lines.

The independent assurance provided by Internal Audit also assists the Council in reporting annually on the effectiveness of the internal control system included in the Council's Annual Governance Statement (AGS).

Authority and Access to Records, Assets and Personnel

Internal Audit has unrestricted right of access to all Council records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers where necessary on-demand and without prior notice. The right of access to other bodies funded by the Council should be set out in funding conditions.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the SAC.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised and which external audit would need to discharge their responsibilities.

Responsibility

The HoIA is required to provide an annual opinion to the Council and the Chief Finance Officer and the Chief Executive, through the SAC, on the adequacy and the effectiveness of the Council's risk management, control and governance processes. To achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors, etc.) such that the assurance needs of the Council, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the Council's business based on a risk-based plan agreed with the SAC.
- Provide the Chief Finance Officer, Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the CLT and the SAC summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- Assist in the investigation of allegations of fraud, bribery and corruption within the Council and notifying management and the SAC of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the SAC. Responsibility for remedial action in response to audit findings rests with line management.

There are inherent limitations in any internal control system, and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems, and recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the Council's policies and standards and monitor whether such actions are implemented on a timely basis.

Where appropriate, Internal Audit will undertake assurance or consulting activities for the benefit of the Council in organisations wholly owned or controlled by the Authority. Internal Audit may also assure the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

The SAC is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

Scope of Activities

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit, therefore, provides the Members via the SAC, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Council's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the Council in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value-adding activities includes evaluating risk exposures relating to the Council's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Reporting

For each engagement, Internal Audit will issue a report to the lead auditee identified for each internal audit and the Chief Finance Officer or their nominee, and a summary of the report to the CLT and the SAC.

The PSIAS require the HoIA to report at the top of the organisation, and this is done in the following ways:

- The Internal Audit Charter is reported to the CLT and presented to the SAC annually for formal approval.
- The annual risk-based plan is compiled by the HoIA taking account of the Council's risk management framework and after input from members of the CLT. It is then presented to the CLT and then to SAC annually for comment and formal approval.
- The internal audit budget is reported to Executive and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the HoIA) and the independence of internal audit will be reported at least annually to the SAC through the annual HoIA report.
- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the CLT and SAC on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the SAC
- Any instances of non-conformance with PSIAS must be reported to the CLT and the SAC and will be included in the annual HoIA report. If there is significant non-conformance, this may be included in the Council's AGS.

Independence

The HoIA has free and unfettered access to the following:

- Chief Executive;
- Chief Finance Officer;
- Monitoring Officer;
- Chair of the SAC; and
- Any other member of the CLT.

The independence of the HoIA is further safeguarded as the service is contracted. Also, their annual appraisal ensures it is not inappropriately influenced by those subject to internal audits.

To ensure that internal auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declaration via the contracted suppliers' procedures which include deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in the contracted supplier must complete);
- Personal Connections (the system for recording interests in securities and collective investment vehicles held by partners, directors and managers, and their immediate family members); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the SAC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

External Auditors

The External Auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the External Auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up on the implementation of internal control issues raised by External Audit. Internal Audit and External Audit liaise periodically to:

- Plan the respective internal and external audits;
- Discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

Due Professional Care

The following standards bind the Internal Audit function:

- Chartered Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- PSIAS;
- Relevant Authority Policies and Procedures; and
- Relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of ongoing performance monitoring and an external assessment by a suitably qualified, independent assessor at least once every five years. An independent EQA of our internal audit services was undertaken in 2019 with full compliance with PSIAS confirmed.

A programme of Continuous Professional Development CPD is maintained for all staff working on internal audit engagements to ensure that auditors preserve and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. The HoIA is required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Performance Measures

In seeking to establish a service that is continually improving, we acknowledge it is essential that we agree on measures by which Internal Audit should demonstrate both that it is meeting the Council's requirements and improving over the life of the contract. This will be both through quantifiable factors within Key Performance Indicators (KPIs) and additionally through a number of measures to further seek to establish the value derived from internal audit. These measures had been agreed with the SAC and Chief Finance Officer in March 2021.

