

30 January 2019**Agenda Item: 4****REPORT OF VICE CHAIR - GOVERNANCE AND ETHICS COMMITTEE AND
SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT****PUBLIC SECTOR AUDIT APPOINTMENTS - LOCAL AUDIT QUALITY FORUM****Purpose of the Report**

1. To update members of the Governance and Ethics Committee of key messages and emerging issues from the Public Sector Audit Appointments (PSAA) Local Audit Quality Forum held on the 3 December 2018 attended by Cllr Andy Sissons and Simon Lacey, Internal Audit.

Information***Coverage***

2. The report brings together:
 - A summary of key messages from presentations during the forum; and
 - Emerging issues and challenge questions on which Members may wish to seek assurance from management.

Summary of key messages from presentations

3. The forum received presentations from a variety of speakers including:
 - Public Sector Audit Appointments – Tony Crawley, Chief Executive;
 - Surrey County Council – Leigh Whitehouse, Executive Director of Finance;
 - Ernst and Young – Janet Dawson, Partner; and
 - National Audit Office – David Aldous, Director.
4. This report captures the key messages from presentations during the day which have been brought together in the following themes. A comment has been incorporated with each key message to identify the actions taken by Nottinghamshire County Council, or the implications for this Council.

Reporting the Results of External Auditors' work

5. The majority of Councils achieved the earlier accounts deadline of 31 July. There were only a limited number of adverse Value for Money (VFM) conclusions despite the continuing financial pressures on local government. Some adverse VFM conclusions were high profile and the majority were in relation to financial resilience and Children's Services.

This Council achieved an unqualified opinion and VFM conclusion within the earlier accounts deadline.

Financial Resilience – The Challenge

6. The scale of the financial challenge at Surrey County Council (SCC) was used to demonstrate the need to continually assess financial resilience. SCC identified similar financial pressures to Northamptonshire County Council. Notably, the council faced escalating demand pressures in Adult Social Care and Children's Social Care, along with emerging pressures in Special Educational Needs and Disability.

These pressures are not dissimilar to the financial pressures faced by this Council but not to the same scale as experienced in Northamptonshire.

7. A number of actions were taken to address the challenge at SCC: CIPFA were engaged to undertake a financial resilience review; business cases were developed for transformation projects; a 'back to basics' approach was adopted to budgeting; and financial planning horizons were shortened. The need to challenge financial resilience incorporated a review of the financial strategy, including demand management, earlier intervention and funding challenges to front line services.

The Council has already implemented similar challenge actions and has engaged internal audit to undertake an assurance review of financial resilience.

What do external auditors look for?

8. The current Code of Audit Practice (CoDE) requires external auditors to provide a VFM conclusion based on the **arrangements** at the Council rather than the **achievement** of VFM. The Council is responsible both for ensuring that appropriate arrangements are put in place and that VFM is achieved. This includes ensuring that risks from financial pressures and financial resilience are appropriately managed. External auditors identified a number of triggers that could result in additional risk for the VFM conclusion work. These included use of reserves and balances; achievement of savings; refinancing and borrowing; capital funding and commercial activities.

Internal Audit have incorporated the aforementioned triggers within the scope of the financial resilience assurance review currently in progress.

9. Finally, the scope of the current CoDE is to be reviewed by the National Audit Office by no later than April 2020, which could include a refresh of the scope of the VFM conclusion.

Summary of emerging issues and challenge questions

10. The forum afforded delegates the opportunity to network with colleagues and peers, from a cross-section of public sector bodies, and to discuss key messages with a panel of practitioners, the President of CIPFA and the Director of the National Audit Office. These discussions generated a number of thought provoking themes and challenge questions for delegates to take back to their respective organisations. The emerging challenge questions for Nottinghamshire County Council have been captured below:

Challenge Questions

- Has the Council robustly challenged its own financial resilience?
- How effectively have escalating demand pressures been challenged and justified?
- Have financial strategies been reviewed against common risk areas identified by other councils?
- Have management over-relied on External Audit for assurance regarding the achievement of VFM?
- Does the current CoDE go far enough to provide assurance on the achievement of VFM as opposed to the arrangements for securing it?
- Should consultation on the CoDE consider a revised approach to the VFM conclusion?

Post forum publications

Since attending the forum two relevant reports have been published by the National Audit Office, namely 'Local auditor reporting in England 2018' and 'Local authority governance'. The two reports support the themes discussed at the forum with some key facts being reproduced below. The Council needs to be mindful of these findings to support responses to the aforementioned challenge questions.

- 18% of single-tier local authorities and county councils received a qualified conclusion on arrangements to secure value for money in 2017-18;
- 27% of local authorities' external auditors thought risk profiles had increased from 2016-17 to 2017-18; and
- 48% of external auditors agreed or strongly agreed that audit committee members in their authority were appropriately trained to deliver their role.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

The report identifies learning from the experience of other councils in dealing the significant financial pressures they currently face. This provides a basis for considering whether the Committee requires further assurance that a prudent approach is being taken at this Council.

RECOMMENDATION

- 1) Members note the key messages arising from the forum and consider what further assurance is required from management that the emerging issues are being addressed effectively at this Council.

Councillor Andy Sissons
Vice Chair – Governance and Ethics Committee

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

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Constitutional Comments (KK – 16/1/2019)

12. The proposals in this report are within the remit of the Governance and Ethics Committee.

Financial Comments (SES – 18/1/2019)

13. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All