

Local Audit Quality Forum

Financial Resilience and Sustainability

3 December 2018

Please note: Where speakers are not present in the slides this is due to no presentation being used during their session



Reporting the Results of Auditors' work

Andrew Chappell, Senior Quality Manager

PSAA going forward

Tony Crawley, Chief Executive

Reporting the Results of Auditors' work

Andrew Chappell, Senior Quality Manager

What happened in 2017/18?

Against a backdrop of.....

- High-profile challenges for some authorities
- General concern at local government finances
- Innovative plans to raise resources, leading to more complex arrangements

....there was an impressive response to the new timetable, and similar outcomes

Let's look at the headlines.....

Results and timeliness

The headline outcomes

	2016/17	2017/18
Opinions on the accounts		
Opinions issued by 31 July	17% (83)	87% (431)
Opinions not issued by 30 September	5% (27)	5% (25)
Qualified True and Fair opinion	0%	0%
Conclusions on the arrangements to secure VFM		
Non-standard conclusion	8% (42)	7% (36)*
Statutory reporting powers		
Public interest reports	0	0
Statutory recommendations	3	2
Advisory Notice	0	1

- Auditors at 30 bodies have yet to issue their 2017/18 conclusion (2016-17 10) Information from auditors is that the number of non-standard VFM conclusions will increase.

Non-standard opinions – VFM

Reasons for non-standard VFM arrangements conclusions

Financial sustainability	8
Children's services	16
Corporate governance	12
Procurement	5
Risk management	1

Note: some conclusions qualified for more than one reason

26 VFM arrangements conclusions not yet issued

Opinions that didn't make 31 July

Reasons why opinion could not be issued by 31 July

Quality of draft accounts and supporting working papers	14
Draft accounts submitted late for audit	11
Audited body staff capacity	15
Resolution of material and significant issues	60
Objections and other matters	9
Group accounts	6
Audit firm capacity	4
Planned late	1

Note: some audits delayed for more than one reason

Our reporting

- Reporting on the results of auditors work
- Quality Review Programme
 - Annual Report
 - Regulatory reviews
 - Satisfaction surveys
 - Quarterly Reports
 - Contract Performance Indicators

Transitional arrangements

Audit Commission legacy work nearly complete

- 70 objections
- 10 Councils 2016/17
- 3 Councils 2015/16
- 2017/18 auditor quality review programme
- 9 Parish Councils

PSAA going forward

Tony Crawley, Chief Executive

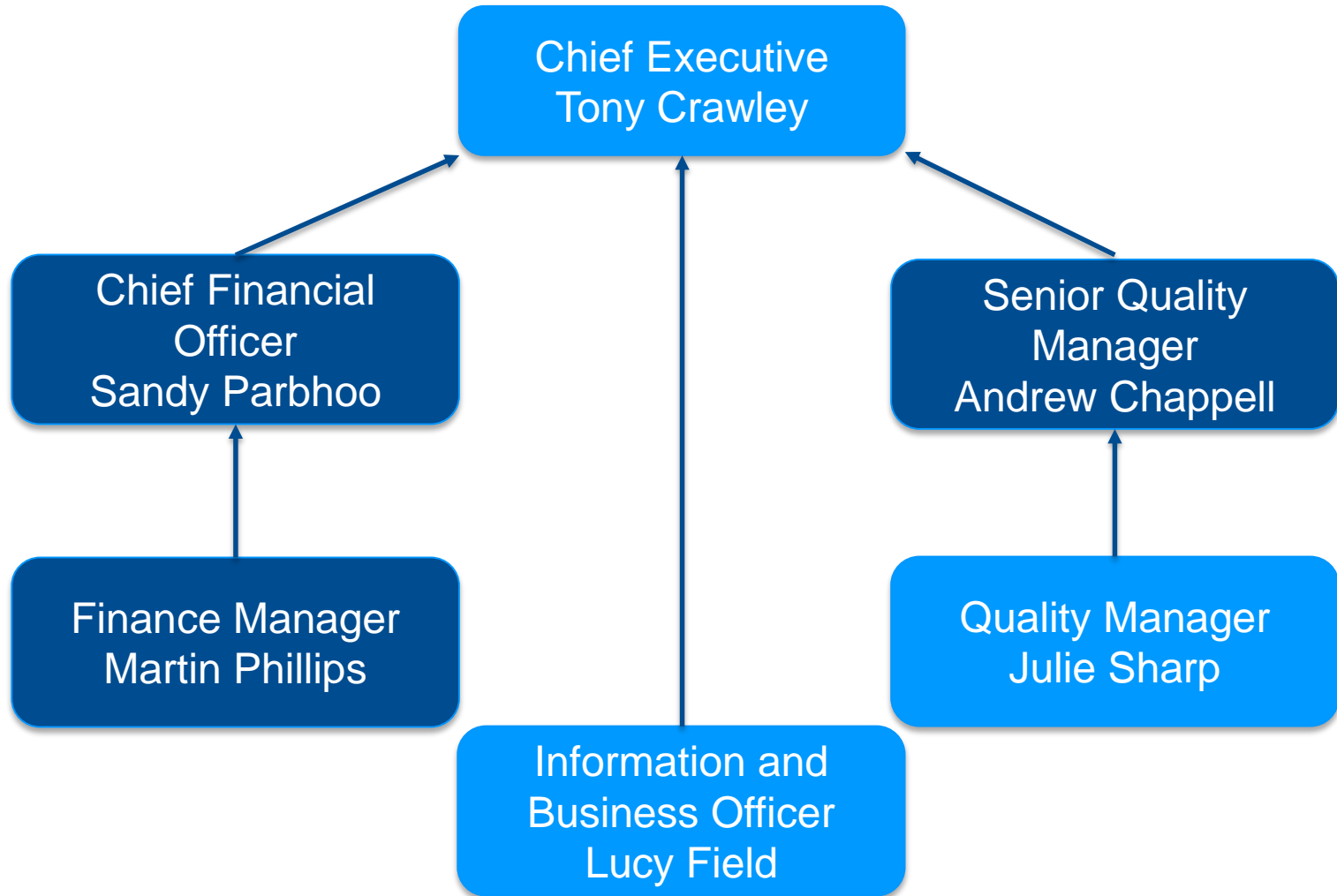
PSAA – a new beginning

- As well as our legacy role.....
- PSAA is an ‘appointing person’
- We offer an efficient audit solution
- Independence is key

PSAA – who we are

- We have restructured
- Our staff are a mix of new and existing
- Our operating costs are down from £2.1m (2016/17 actual) to £1.1m (2019/20 budget)

PSAA – our new structure



Lessons learned.....

- External review of procurement
- Going to PSAA December Board
- Positive headlines, but also.....
- Captures the challenges going forward

What about quality?

- What is audit quality?
- We no longer commission AQR
- Contract monitoring will be key
- Your feedback will be important

Our outputs going forward

- Fee consultation – currently out for 2019/2020
- Quality monitoring reports
- Annual audit outcome reporting?
- Thinkpieces/research
- Improved website

Let's talk....

We want to....

- Know what you think
- Understand your challenges
- Explain PSAA's role and approach

So please invite us!

Financial Resilience – The Scale of the Challenge Practitioner Perspective

Leigh Whitehouse

Executive Director of Finance

Surrey County Council

Content

- Introduction to Surrey County Council
- Austerity and Surrey CC
- The scale of the challenge
- How did that happen?
- What are we doing about it?
- What will success look like?



An Introduction to Surrey

The County

- Population 1.2m
- Area 642m²
- Density 2nd for County Council areas
- Highest GDP per capita in the UK
- Highest cost of living outside London
- Masking areas of deprivation

The Council

- Gross Budget £1.7Bn, Net Budget £900m
- 81 County Councillors, of which 61 Conservative
- Change of Leader
- New Chief Executive and senior team



SURREY

Surrey MPs



Rt Hon Philip Hammond
MP



Kwasi Kwarteng MP



Dominic Raab MP



Rt Hon Chris Grayling
MP



Crispin Blunt MP



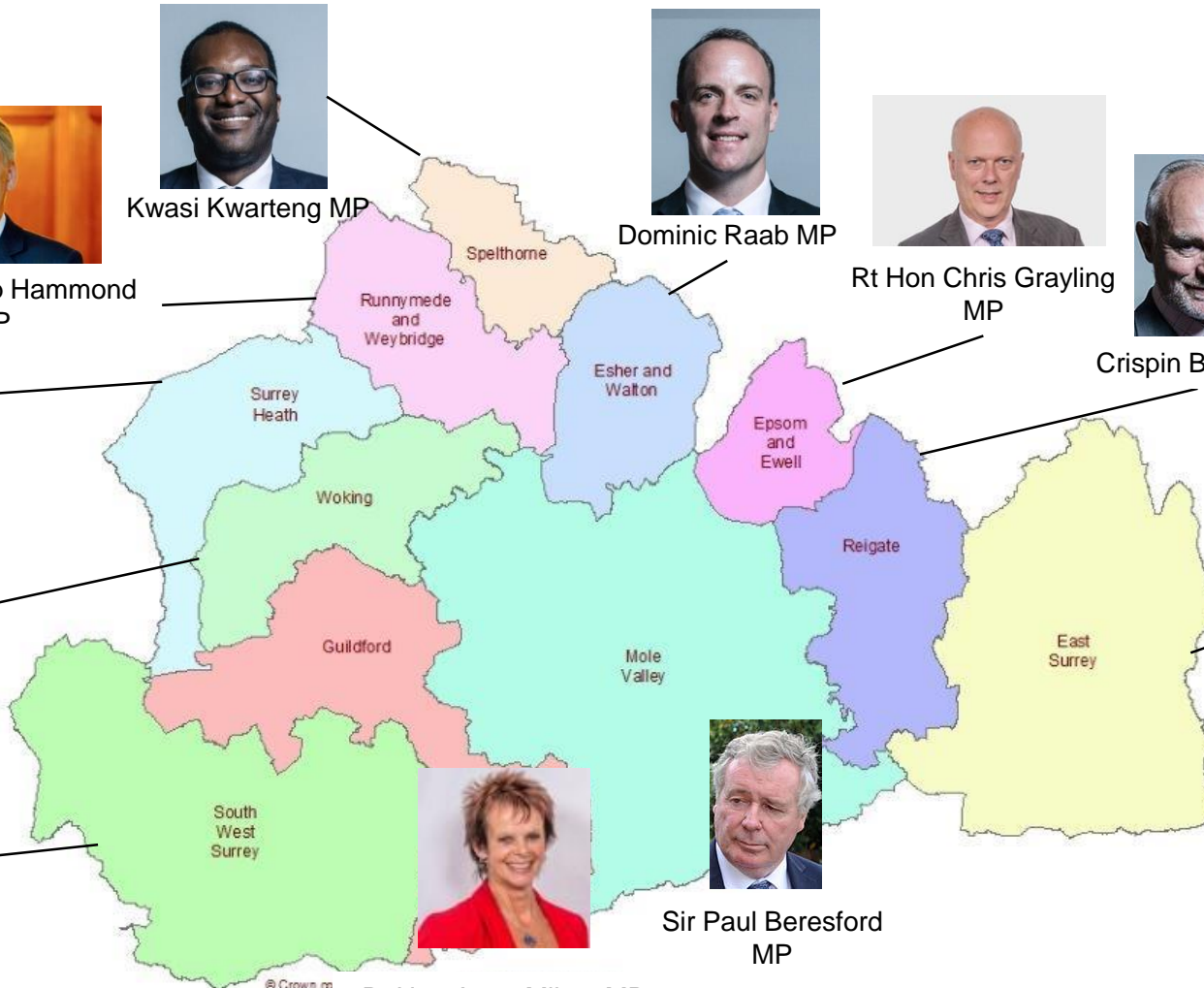
Rt Hon Michael Gove
MP



Jonathan Lord MP



Rt Hon Jeremy Hunt MP



Sam Gyimah MP



Sir Paul Beresford
MP



Rt Hon Anne Milton MP



SURREY

Austerity and Surrey CC

Tories resist pressure to freeze council tax

8 FEBRUARY, 2012 | BY RUTH KEELING

Eighth Conservative administration proposes council tax increase as ministers step up pressure for freeze

NEWS

Surrey County Council referendum for 15% tax rise WILL go ahead despite outcry from residents

The council's cabinet has decided that a referendum, costing between £85,000 and £300,000, will go ahead despite overwhelming opposition from residents



Surrey council abandons plan to raise council tax by 15%

Conservative-run council planned to poll voters on increase to pay for social care but instead recommends rise of just under 5%

Surrey, UK's richest county, hit by £100m cash crisis

Nine out of ten authorities will go over budget

Henry Zeffman, Political Reporter | Gareth Davies

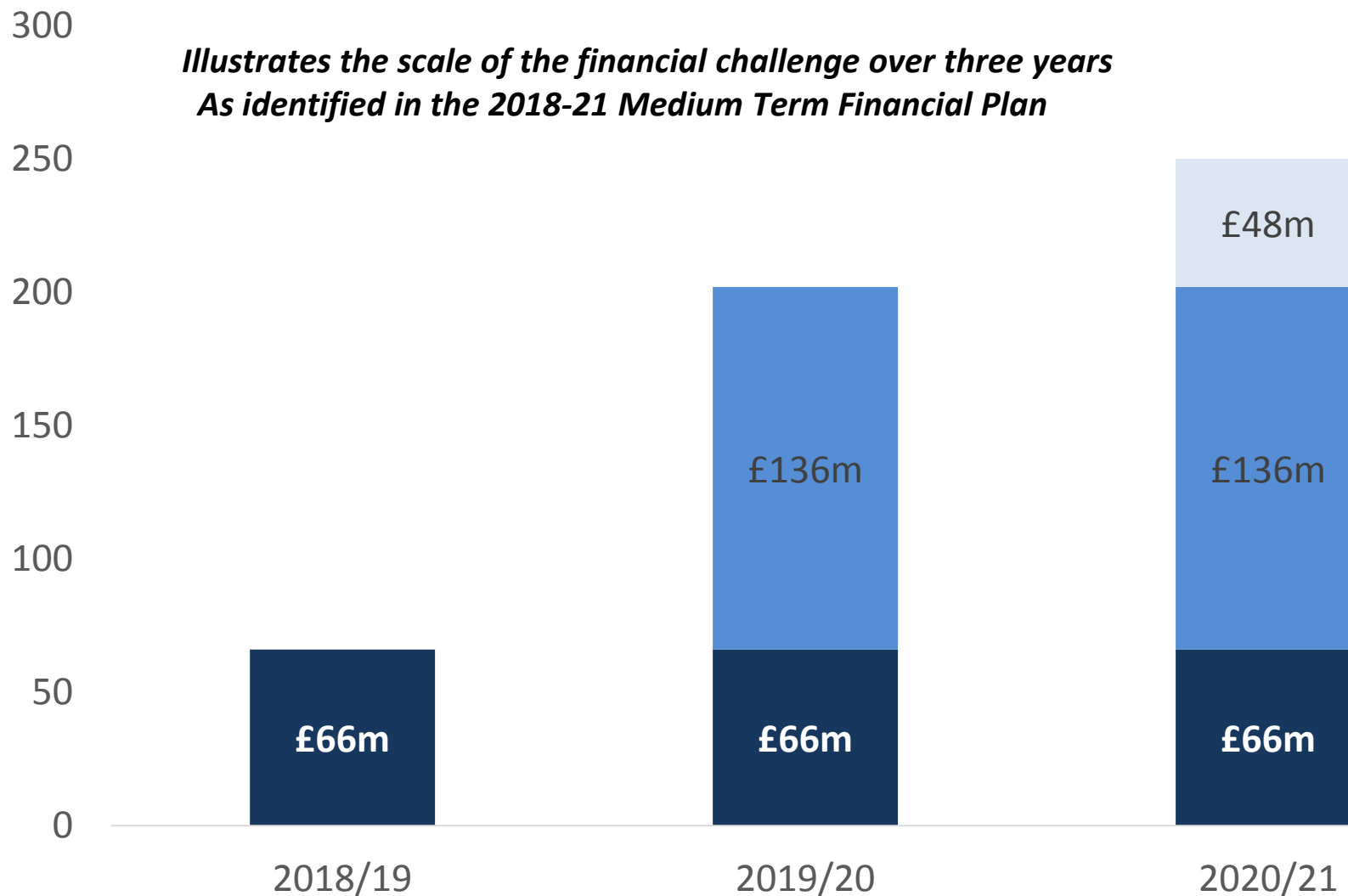
February 8 2018, 12:00pm, The Times



SURREY

2018 MTFP

*Illustrates the scale of the financial challenge over three years
As identified in the 2018-21 Medium Term Financial Plan*



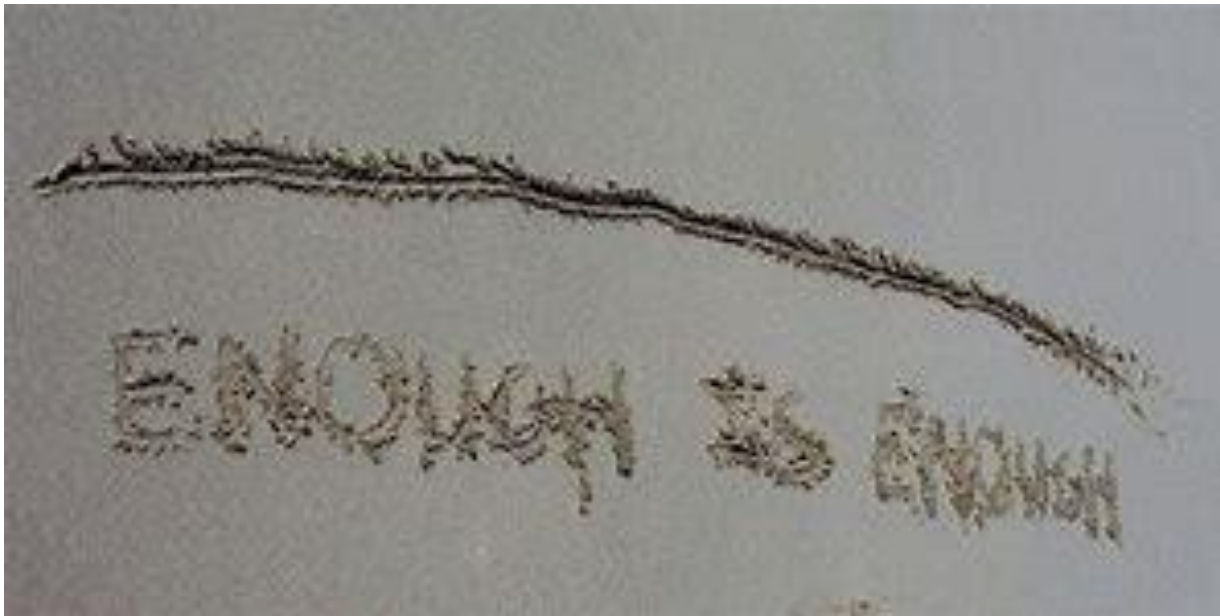
How did that happen?

- Escalating demand pressures:
 - Adult Social Care – esp LD
 - Children's Social Care (2x Inadequate Ofsted)
- Loss/shortfall on specific funding streams:
 - NHS LD Transfer £65m
 - Public Health £15.5m below target
 - UASC £5m shortfall
- Extension of austerity and delay of Fair Funding



Then What?

- Emerging High Needs Block SEND pressure
- CIPFA Report



SURREY

What are we doing about it?

- Transformation business cases
- Back to basics
 - Budget Accountability Statements
 - Budget Envelopes
 - Budget monitoring changes
- Shortened Planning Horizon
- Building a collective sense of responsibility



What are we doing about it? (2)

- Preliminary Financial Strategy includes:
 - Practice Improvement
 - Demand Management
 - More early help
 - Consultation initiated on:
 - Libraries
 - Children's Centres
 - CRCs
 - Bus Subsidies
 - Concessionary Fares



What will success look like?

- A shift in trajectory
- Renewed sense of purpose
- Stable platform
- Space to think
- Children's Services improvements
- Ambition and realism
- Off the front page?



CHALLENGES FOR FINANCIAL RESILIENCE IN POLICING

Jayne OWEN

DIRECTOR OF FINANCE (Police and crime),
GMCA

POLICE FUNDING – GRANT VS PRECEPT

Grant vs precept

% of budget for staffing costs



90%

Funding challenges

- ☐ Government grant for the police has been cut by 24.4% in cash terms between 2010-11 and 2018-19. This equates to a real terms cut of 33.5%.
- ☐ History of 1 year settlements
- ☐ Lack of detail in the Autumn Statement
- ☐ 'Top slicing' for national projects £174m in 15/16 rising to £945m in 18/19
- ☐ Spending Review
- ☐ Funding Formula review
- ☐ Precept flexibilities
- ☐ Reserves

Cost challenges

Expenditure

- Pensions costs
- Pay awards
- Insurance claims
- Inflation (particularly construction)
- National Emergency Service Network project

DEMAND

Increasing high-harm demand

Changing demand

Complexity of demand

Cuts to other public services

National Approach (1)

Transformation Fund

£175m investment per annum over the last spending review period

Police is the only self-reforming public service

Reform is centred round the Policing Vision 2025 and consists of **5 work streams**:

- ☐ Digital
- ☐ Local Policing
- ☐ Specialist Capabilities
- ☐ Workforce
- ☐ Business Enablers

National Approach (2)

Spending review submission

Working with the Home Office - Joined-up law enforcement proposition consists of **3 work streams**:

- ☐ Capability
- ☐ Demand & resilience
- ☐ Efficiency & productivity

Local Approach

- ☐ Collaboration including Police and Fire
- ☐ Partnership working
- ☐ Transformation programmes including estate rationalisation
- ☐ Investment in early intervention



What do the auditors look for and what are their options for highlighting increasing risk to financial resilience and sustainability?

Janet Dawson, EY



Auditors and financial resilience and sustainability

- What are our responsibilities as auditors?
- What are we looking for?
- What options have we got to report on increasing risks?
- Is there an expectations gap?

Our responsibilities

- Set out in the Code of Audit Practice
- Financial statements
- Value for money arrangements
- Other reporting powers

Financial statements

- Our responsibilities
- What do we look for?
- How and what do we report?

Value for money

- Value for money arrangements

“has made proper **arrangements** for securing value for money through the economic, efficient and effective use of its resources” LAA Act 2014 s20(1)(c)
- Not required to satisfy ourselves that the audited body has achieved value for money during the reporting period
- Arrangements should be set out in audited body's governance statement

Value for money (cont)

- Factors to consider:
 - Arrangements to manage risks
 - In place throughout the reporting period
 - Other evidence, **including body's response to this work**
 - Work of inspectorates and other bodies
- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Value for money (cont)

- How would we report?
 - Commentary in audit results report
 - “except for” conclusion
 - adverse conclusion

Other reporting powers

- Other reporting powers
 - s24 recommendations
 - s24 Public Interest report
 - s28 declaration
 - s29/31 advisory notice/judicial review

An expectations gap?

- What should you be looking out for from your auditors?
- What should you be looking out for from your management team?

Reviewing the Code of Audit Practice

David Aldous

Director – Local Audit Code and Guidance



National Audit Office

Context

Demands on services

Less money

Prioritisation

Transformation and innovation

Uncertainty and risk

Value of external audit

Independent assurance

Public reporting

Insights drawn from wide scope

Supporting effective

Governance

Stewardship

Accountability

Improvement

Auditors' main areas of focus

The accounts (roughly 80%)

‘Proper arrangements’ (roughly 20%)

... within an integrated audit

Discussion

What are the risks to the accounts, financial management and good governance that concern you most?

What are the areas on which audit effort should focus most? If this differs from your current experience of how audit effort is deployed, what should change?

Enhancing the impact of auditor reporting

Increasing number of qualified conclusions on arrangements to secure value for money

Limited use of auditors' additional reporting powers

Consequences of auditors raising concerns

Challenges of reporting on issues that cut across several public bodies

Discussion

How can auditor reporting have more impact locally and nationally?

Next steps

Engagement and consultation on a new Code

New Code needed by no later than April 2020

In parallel update the NAO's guidance supporting the Code

The Local Audit Quality Forum:

Do we need sector-specific solutions?

Roundtable discussion