

# Corporate governance framework

**December 2020**

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## Part 1 – Objects and accountability

### Objects

- 1 The corporate governance arrangements of Public Sector Audit Appointments Limited (PSAA) (the Company) are critical in helping it to achieve its core objectives as set out in its Articles of Association, which are to:
  - a) perform and discharge the remaining functions delegated to it by the Secretary of State on a transitional basis, up to completion of audits of the accounts for 2017/18;
  - b) perform and discharge the functions of an appointing person specified by the Secretary of State, including:
    - to issue an invitation to all relevant principal authorities to become an opted-in authority;
    - to appoint the external auditor to all opted-in principal authorities after consultation;
    - to specify scales of fees for the audit of accounts of opted-in authorities, before the start of the financial year to which the scales relate, and after consultation;
    - to keep, and publish, a record of authorities that become opted-in authorities; to oversee issues of appointed auditor independence, monitor compliance, assist in the resolution of disputes or complaints; and deal with the removal of an appointed auditor;
  - c) take steps to ensure that public money is properly accounted for and protected;
  - d) oversee the delivery of consistent, high quality and effective audit services to relevant authorities;
  - e) ensure effective management of contracts with audit firms for the delivery of audit services to relevant authorities;
  - f) be financially responsible, having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
  - g) lead its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.
- 2 The Board of PSAA and its staff will:
  - observe the highest standards of propriety, impartiality, integrity and objectivity in relation to the stewardship of public funds, the management of the Company and the conduct of its business;
  - maximise value for money by ensuring that the Company's work is performed in the most economical, efficient and effective way, within available resources;
  - be consultative in style, and open and responsive to all stakeholders; and;
  - ensure that there is in place an effective system of internal control to enable the Company to meet its corporate objectives.
- 3 The Board will review its governance arrangements regularly to ensure that they remain fit for purpose and continue to reflect these values, aims and principles including best practice in corporate governance.

## Accountability

### 4 PSAA demonstrates its accountability by:

- publishing its audited annual accounts in accordance with the requirements of the Companies Act 2006;
- complying with the Memorandum of Understanding with the Ministry of Housing, Communities and Local Government (MHCLG) and reporting to the Secretary of State and other ministers;
- informing the Secretary of State of any changes to the company's Articles of Association;
- The Chairman and Chief Executive attending the IDeA Board twice a year to ensure that the parent Board is informed about PSAA activities.
- being as transparent as possible about its business, its finances, its statutory responsibilities and its governance including complying with the Local Government Transparency Code as amended from time to time by MHCLG and the Freedom of Information Act;
- consulting on auditor appointment and fee scale proposals;
- publishing a clear complaints process;
- engaging with stakeholders to encourage feedback on its activities; and
- publishing an annual report on its activities.

### 5 PSAA has regard to the principles set out in the Code of Conduct for Board Members of Public Bodies (issued by the Cabinet Office) and in the UK Corporate Governance Code, to the extent this can be applied to a small company without shareholders. The principles, where applicable to PSAA, are reflected in the arrangements set out in this corporate governance framework and are summarised at Appendix 1.

## Part 2 – PSAA Board Members’ roles and responsibilities

### Public Sector Audit Appointments Limited

- 6 PSAA is a private company established under the Companies Act 2006, without share capital and limited by guarantee. It is a wholly owned subsidiary of the Improvement and Development Agency (IDeA), which in turn is a subsidiary of the Local Government Association (LGA). The primary duty of the Company’s Board is to discharge the statutory objects and powers set out in its Articles of Association in accordance with the Companies Act 2006 and the Company’s founding documents.
- 7 The non-executive Director who is to act as Chairman of the Board is appointed by the IDeA. The other non-executive Directors are appointed by the Chairman with the approval of the IDeA. The Articles of Association allow for a Board consisting of a non-executive Chair and up to four other non-executive Directors (Board members). Up to two non-Board members may be appointed to sit on the Audit Committee.
- 8 The Chairman and the other non-executive Directors are each appointed for a term of office of no more than three years. Appointments may be renewed, subject to satisfactory assessment of performance. Any renewal taking a non-executive Director’s expected continuous service beyond six years will be contingent on a rigorous review process confirming highly satisfactory performance, and taking account of the need for progressive refreshing of Board membership. In accordance with the Cabinet Office Governance Code on Public Appointments, the continuous service of a Director should not exceed ten years in total. The IDeA/LGA is responsible for nominating a person to conduct the annual appraisal and review of the performance of the Chairman, and the Chairman is responsible for appraisals of Board members.

### The Board

- 9 The Board as a whole is legally responsible for the management and stewardship of the Company in the discharge of its purpose and powers which are set out in its Articles of Association. The Board alone is responsible for agreeing the Company’s strategy, and for determining its budget.
- 10 The Board’s responsibility includes:
  - a) monitoring the company’s performance;
  - b) ensuring that PSAA acts within its legal powers and remits;
  - c) ensuring that PSAA is properly managed, and remains independent from the leadership of the LGA;
  - d) ensuring that proper systems are maintained to ensure propriety and value for money; and that performance is monitored;
  - e) ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control; and
  - f) ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance;

g) approving the risk management strategy and setting the risk appetite.

**11** The Company's powers and remit are set out in Part 3 of this document, which also describes those powers that are delegated from the Board to the Audit Committee and the Chief Executive. The following is a summary of the Company's main powers and remit:

- a) **Auditor appointment** – appointment of the external auditors to bodies subject to audit as defined in relevant legislation, including local authorities, police bodies, fire authorities, and other local government bodies.
- b) **Setting fees** – setting scales of fees to be paid by bodies subject to audit.
- c) **Managing the audit contracts** - overseeing the provision by appointed auditors of consistent, high-quality and effective external audit services to bodies subject to audit and ensuring effective management of contracts with audit firms for these external audit services.

## The Chairman

**12** The Chairman is the leader of the Board. The Chairman will work closely with the Board, the Chief Executive and the staff to provide:

- a) **Leadership** – to provide strategic leadership to ensure that the Company pursues its functions and objectives as set out in its Articles, complies with its governing documents, company law, any other relevant legislation or regulations and the principles of effective and efficient management of public money.
- b) **External communications** – to steer the Company's key relationships with appointed auditors, audited bodies, senior sector leaders in other organisations and the media; representing the views of the Board to the general public.
- c) **Corporate governance** – to deliver high standards of regularity and propriety and promote the efficient and effective use of staff and other resources throughout the Company. The Chairman presides at Board meetings, ensures that these are held at regular intervals throughout the year and are accurately minuted. The Chairman will ensure that all Board members are able to be involved fully in the work of the Board, and that they are fully briefed and well informed about the terms of their appointment and on their rights, duties and responsibilities. In accordance with best practice, the Chairman will make arrangements for a review of the Board's effectiveness to be carried out at the end of each calendar year, and will also conduct annual appraisals to assess the performance of individual non-executive Board members and ensure regular dialogue about training and development needs.

**13** In conducting Board members' annual appraisals, the Chairman will seek views and invite inputs from other interested parties, including other Board members, the Chief Executive and representatives of the LGA and IDeA. In formulating any recommendations for renewal of Board members' terms of office, the Chairman will have regard to the requirements set out in paragraph 8 and to the need to refresh Board membership from time to time while also maintaining a level of continuity. This will take account of the fact that the company has two demanding business cycles - an annual cycle aligned to the annual audits for which it is responsible for making auditor appointments and setting scale fees, and a five-year cycle linked to the term for which local government and police bodies opt into the Company's

Appointing Person scheme and to the term of contracts let with audit firms.

Recommendations which would have the effect of extending a Board member's expected continuous tenure beyond six years will be preceded by a rigorous appraisal confirming highly satisfactory performance to date.

- 14 Similar arrangements to those set out at paragraph 13 for non-executive Directors apply to appraisals of the Chairman, which will be led by a person nominated by the IDeA/LGA.
- 15 The Chairman agrees the objectives and undertakes appraisals of the Company's Chief Executive, following consultation with other non-executive Directors.
- 16 In the absence of the Chairman, a nominated deputy acts, as necessary, to ensure the continuity of Company business.
- 17 The overarching role of the IDeA, as founder of the Company, is to support PSAA in successfully discharging the functions delegated to it by the Secretary of State and achieving its objectives.
- 18 The IDeA acknowledges the independence of the Company and the responsibility for running the company as that of PSAA and its Board.
- 19 The Chairman of PSAA will:
  - a) report on the Company's activities to the Board of the IDeA at 6-monthly intervals; and
  - b) ensure that the IDeA receives copies of the Company's Annual Report and audited Financial Statements, and an annual report from the Chairman of the Audit Committee.

## Corporate responsibilities of the Board

- 20 The Board as a whole is legally responsible for the management and stewardship of the Company in the discharge of its functions and objectives and its powers are set out in its Articles.
- 21 The Board regulates its own proceedings and has approved Standing Orders for that purpose (see Appendix 2).
- 22 Board members act collectively: they do not have individual executive authority. The specific functions and decisions that are reserved to the Board are set out in Part 3.

## Responsibilities of individual Board members

- 23 In addition to their duties under the Companies Act 2006 and the Company's Articles, individual non-executive Board members should at all times comply with the principles and responsibilities described in this document and in the [Code of Conduct for Board Members of Public Bodies](#) issued by the Cabinet Office in June 2011 and updated in June 2019. They should act in good faith and in the best interests of the Company and should follow the Seven Principles of Public Life set out by the Committee on Standards in Public Life (the 'Nolan Principles'). Those principles are set out in Appendix 1.
- 24 Board members must not use information gained in the course of their service to the Company for personal gain; nor seek to use the opportunity of their public service to promote their own, or other parties', private interests. They should not disclose information or documents obtained through their position as Board member without the consent of the Chairman.

- 25 All Board members should ensure that they are familiar with the Company's rules and practices on declarations, and avoidance of conflicts of interests. Details of these, and the Company's rules on gifts and hospitality, are at Standing Orders 8-12.
- 26 In accordance with the provisions of the Companies Act 2006 and on grounds set out in the terms and conditions of appointment, a Board member may be removed by the Board in consultation with the IDeA if they are considered unable or unfit to discharge the functions of a member, including not meeting their obligations and responsibilities as described in this document.

### Personal liability of Board members

- 27 Although any legal proceedings initiated by a third party are more likely to be brought against the Company, in exceptional cases proceedings (civil or criminal) may be brought against the Chairman or other individual Board members. For example, a Board member may be liable if he or she makes a fraudulent or negligent statement, which results in loss to a third party. A Board member who misuses information gained by virtue of his or her position may be liable for breach of confidence.
- 28 However, an individual Board member who acts honestly and in good faith should not normally incur any civil liability in an individual capacity, unless he or she has acted recklessly. The Company indemnifies its officers in such circumstances against any action taken or threatened against them (see article 42 of the Articles of Association) and may insure directors in respect of any relevant loss (see article 43 of the Articles of Association). The Chairman and Chief Executive of the Company will ensure that legal advice is provided to any Board members who want further clarification of their legal position.

### Committees

- 29 The Board may appoint committees with such memberships and terms of reference as the Board deems appropriate. Committees exercise functions delegated to them, providing more detailed consideration of specific work areas and advising the Board accordingly.

### Complaints

- 30 The Board approves, publishes and maintains a complaints procedure.
- 31 The Chief Executive reports annually to the Board about the nature and number of complaints and about the Company's handling of complaints. Complaints in relation to audit firms are dealt with under the compliance and quality review process.
- 32 The Chairman is responsible for responses to complaints against Board members.
- 33 In the event of a complaint against the Chairman personally, a nominated deputy and the Chair of the Audit Committee (or, if they are the same person, another Board member selected by the nominated deputy) shall consider whether there is a sufficiently serious prima facie case, and if so, shall inform the IDeA, as founder of the company.

### Audit committee

- 34 Board members are formally Those Charged With Governance (TCWG) and have delegated some aspects of their responsibilities to the Audit Committee. The Scheme of Delegation reflects those delegated responsibilities where the Audit Committee acts in the capacity of

TCWG. The Audit Committee will comprise no fewer than three members and will meet at least twice each year.

- 35** The Audit Committee's quorum will be three members.
- 36** Independent members of the Audit Committee are appointed for a term of no more than three years. Appointments may be renewed, subject to satisfactory assessment of performance. Any renewal taking an independent member's expected continuous service beyond six years will be contingent on a rigorous review process confirming highly satisfactory performance and taking account of the need for progressive refreshing of committee membership. Continuous service should not exceed ten years in total.
- 37** The Chair of the Audit Committee is responsible for appraisals of independent members of the committee in order to monitor performance and ensure a regular dialogue about training and development needs. In doing so the Chair will seek views and invite inputs from other interested parties including other members of the committee and the Chief Executive. In formulating any recommendations for renewal of independent members' terms of office, the Chair, in consultation with the Chairman of the Company, will have regard to the requirements set out in paragraph 36 and to the need to refresh committee membership from time to time while also maintaining a level of continuity.
- 38** The Committee's terms of reference are:
- i) to review the Company's annual accounts, specifically to consider whether appropriate accounting policies have been followed, and to recommend them to the Board for approval;
  - ii) in respect of external audit:
    - a) to recommend to the Board the appointment of the Company's external auditors;
    - b) to review the results of the external audit, including the auditor's management letter;
    - c) to monitor the implementation of recommendations and the response by management.
  - iii) to consider the effectiveness of the Company's risk management arrangements including reviewing the risk management policy and strategy to recommend to the Board for approval, and to review the corporate risk register at each meeting, seeking assurances that action is being taken on risk-related issues.
  - iv) on behalf of the Board, to scrutinise any aspect of the work of the Company against a benchmark of best practice and to report as appropriate. The Audit Committee will review, and challenge where appropriate:
    - a) the Company's financial policies and procedures and IT policies, practices and processes;
    - b) the Company's internal control systems, including those which relate to areas that have been outsourced;
    - c) the arrangements for controlling and reporting Company expenditure;
  - v) to keep under review the Company's governance arrangements and consider the framework of assurance to ensure that it adequately addresses the Company's risks and priorities.
  - vi) to report annually to the Board on assurances received, significant control issues, the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose;

- vii) to review annually the Company's treasury management policy, including the criteria used to define those bodies on the approved lending list, and to recommend this to the Board for approval;
  - viii) to review annually the corporate governance framework (CGF) and recommend any necessary changes to the Board for approval;
  - ix) in respect of internal audit;
    - a) to appoint the internal auditors and to approve any changes to the Company's internal audit arrangements,
    - b) to approve the internal audit work plan,
    - c) to review internal audit reports and monitor implementation of recommendations and the responses of management.
  - x) to review the counter- fraud strategy and recommend to the Board for approval.
- 39** The Audit Committee will present the minutes of its meetings to the Board as soon as possible after each Committee meeting. The Audit Committee will make recommendations to the Board as it considers appropriate.
- 40** The Chief Executive and Chief Finance Officer will attend Audit Committee meetings.

### **Responsibilities of independent Audit Committee members**

- 41** Independent Audit Committee members should at all times comply with the principles and responsibilities described in this document. They should act in good faith and in the best interests of the Company and should follow the Seven Principles of Public Life set out by the Committee on Standards in Public Life (the 'Nolan Principles'). Those principles are set out in Appendix 1.
- 42** Independent Audit Committee members must not use information gained in the course of their service to the Company for personal gain; nor seek to use the opportunity of the public service to promote their own, or other parties', private interests. They should not disclose information or documents obtained through their position as independent Audit Committee members without the consent of the Chair of the Audit Committee.
- 43** All independent Audit Committee members should ensure they are familiar with the Company's rules and practices on declarations, and avoidance of conflicts of interests. Details of these, and the Company's rules on gifts and hospitality, are at Standing Orders 8-12.
- 44** An independent member of the Audit Committee may be removed by the Chair of the Audit Committee, in consultation with the other members of the Audit Committee, if the independent member is considered unable or unfit to discharge their functions as a member of the Audit Committee, including not meeting their obligations and responsibilities as described in this document.

### **Review of the Board's effectiveness**

- 45** Each calendar year, the Chairman will facilitate a formal review of the Board's effectiveness.
- 46** A review will include consideration of the Board as a whole, the operation of any committees and the contributions of individual Board Members.

47 A review will also take account of the Audit Committee's annual report to the Board.

### PSAA Chief Executive

48 The Company's Chief Executive has executive responsibility to the Board for the work of the Company and for its staff, and ensures that the Chairman and Board have timely, accurate and clear information, as required, to carry out their responsibilities.

49 The Board has delegated authority to the Chief Executive for the day-to-day management of the Company, with responsibility for the overall organisation, management and staffing and for its procedures including conduct and discipline.

50 The Chief Executive is authorised to delegate matters to other Company staff. The Company's powers are set out in Part 3 with the Scheme of Delegation.

51 The Chief Executive's responsibilities in respect of HM Treasury's publication [Managing Public Money](#) are set out in more detail in the Financial Policies at Appendix 4.

### The Company as employer

52 The Company will seek to set an example of best practice as an employer and is committed to offering all staff equality of opportunity. It will ensure that its employment practices are designed to promote diversity and to treat all individuals equally.

53 The Company will ensure that it employs suitably qualified staff who will discharge their responsibilities in accordance with the highest professional standards. All staff will be made aware of the Company's plans and objectives, and all relevant internal management and control systems relating to their field of work.

54 The Company has a Code of Conduct for staff, and maintains and publishes a 'whistleblowing' procedure, to ensure that concerned staff have a formal means through which their concerns can be voiced.

## Part 3 - The Company's business and delegated powers

- 55** Part 3 describes the roles and powers reserved for the Board in relation to the activities and statutory functions of PSAA and those delegated to the Chief Executive – referred to as the Company's delegated powers. The Board may choose to delegate to the Chief Executive specific matters that would otherwise be reserved to the Board under Part 3.
- 56** The Board has delegated to the Chief Executive responsibility for the day-to-day management of the Company. Where a matter is not specifically reserved to the Board in the Scheme of Delegation (table 1 below), the Chief Executive has authority to act, in accordance with the arrangements set out in the Corporate Governance Framework, including the Company's financial policies (Appendix 4 of this document). In addition, the Board authorises the Chief Executive to nominate an appropriate PSAA staff member to act on his/her behalf in relation to the responsibilities delegated to the Chief Executive in the Scheme of Delegation. References in these arrangements to the Chief Executive include any person to whom the Chief Executive has delegated his/her authority. Any delegation by the Chief Executive must be made in writing, must be in accordance with arrangements agreed by the Board, and must be copied to the company secretary who will maintain a register of delegations and will report to the Board on such matters periodically.
- 57** In a number of places the arrangements set out in the Scheme of Delegation use a test of significance to differentiate between matters which may be dealt with by the Chief Executive or other officers, and those which must be dealt with by the Board. Initially it is for the Chief Executive, in consultation with the Chairman, to assess whether in the relevant circumstances any particular matter is significant and should be dealt with by the Board. The financial, legal, reputational or other implications for the Company should be considered. The Board has the final authority in any case as to whether or not a matter is significant for the purposes of these arrangements. The financial policies set specific requirements in relation to the Chief Executive's responsibilities and the limits of his/her authority for delegation to appropriate PSAA staff.

## Scheme of Delegation

Subject	Reserved to the Board	Delegated to/responsibility of the Chief Executive	Delegated to the Audit Committee
Corporate governance and internal control framework	Consideration and approval of the Corporate Governance Framework (annually), including Delegated Powers, Standing Orders and Financial Policies.	<p>To maintain the system of internal control and the assurance framework; to provide the Board and Audit Committee with assurance on the system's ongoing effectiveness and appropriateness; and to advise the Board and Audit Committee as to material changes.</p> <p>The Chief Executive can delegate authority to other PSAA staff and will maintain a comprehensive record of delegation for the Company.</p>	<p>Review governance framework arrangements</p> <p>Review the CGF annually and make recommendations to Board for approval.</p>
Corporate strategy	Consideration and approval of PSAA's Business Plan and objectives.	<p>Preparation of PSAA's Business Plan setting out corporate objectives</p> <p>Preparation of annual budgets.</p>	
Annual Report and Accounts	Approval of the Annual Report and the Accounts.	Preparation of the Annual Report and the Accounts for Audit Committee consideration and Board approval.	<p>Review annual accounts and consider appropriate accounting policies and arrangements for reporting company expenditure have been followed.</p> <p>Recommend to Board for approval.</p>

Subject	Reserved to the Board	Delegated to/responsibility of the Chief Executive	Delegated to the Audit Committee
Memorandum of Understanding	Consideration and approval of the Memorandum of Understanding with MHCLG.	Monitoring PSAA's compliance with the Memorandum of Understanding and preparing a draft of any amendments for Board consideration and approval.	
External audit arrangements	Appointment of the Company's external auditors.	<p>Consideration of tenders for external audit services.</p> <p>Monitoring of contracts for provision of external audit services.</p>	<p>Recommend to Board appointment of external auditors</p> <p>Review results of external audit</p> <p>Monitor response to and implementation of recommendations</p> <p>Review external audit effectiveness</p>
Internal audit arrangements		<p>Consideration of tenders for internal audit services.</p> <p>Monitoring of contracts for provision of internal audit services.</p>	<p>Appoint the internal auditors</p> <p>Approve the internal audit plan</p> <p>Review internal audit reports</p> <p>Monitor implementation of recommendations</p> <p>Review internal audit effectiveness</p>

<b>Subject</b>	<b>Reserved to the Board</b>	<b>Delegated to/responsibility of the Chief Executive</b>	<b>Delegated to the Audit Committee</b>
Risk management	<p>Ensuring that effective arrangements are in place to provide assurance on risk management, and that the risks PSAA faces are dealt with in an appropriate manner.</p> <p>Setting PSAA’s risk appetite</p> <p>Approval of the risk management strategy</p> <p>Consideration of risk reports and updates of the Audit Committee.</p>	<p>Manage risks and maintain the corporate risk register, advising the Board and Audit Committee on the status of PSAA’s risks.</p> <p>Develop and maintain the risk management strategy and policy.</p>	<p>Review and challenge PSAA’s assessment and management of risk.</p> <p>Recommend RM strategy to Board for approval.</p> <p>Review corporate risk register at each meeting seeking assurances that action is being taken on risk related issues.</p>
Corporate and financial performance management	<p>Approval of performance management arrangements and consideration of regular monitoring reports.</p>	<p>To keep the Board informed of any significant variance from the corporate plan and budget, and of progress in achieving objectives.</p> <p>To report significant successes or failures and internal issues of significance, including senior appointments, structural changes and accommodation changes.</p>	
Treasury Management	<p>Approval of the treasury management policy</p>	<p>To invest PSAA’s funds in line with the treasury management policy.</p> <p>To review annually PSAA’s treasury management policy and to recommend this to the Audit Committee for review and the Board for approval.</p>	<p>Review treasury management policy annually and recommend to the Board for approval.</p>

<b>Subject</b>	<b>Reserved to the Board</b>	<b>Delegated to/responsibility of the Chief Executive</b>	<b>Delegated to the Audit Committee</b>
MTFP	Approval of a financial plan	Preparation of a financial plan	
Budgetary control	Variations to the approved budget where the variation would have a significant impact on the overall approved levels of income and expenditure.	Variations to the approved budget where the variation would not have a significant impact on the overall approved levels of income and expenditure. In any event, a financial variation shall be treated as significant if it involves incurring one-off expenditure of 1% or more of PSAA's budget, or recurring expenditure of 0.5% or more per annum.	

Subject	Reserved to the Board	Delegated to/responsibility of the Chief Executive	Delegated to the Audit Committee
HR issues	<p>Appointment of the Chief Executive and decisions relating to the Chief Executive's contract terms and remuneration.</p> <p>Approval of the appointment of the Chief Financial Officer.</p> <p>Approval of the structure of the organisation.</p> <p>Approval of the overall staff establishment.</p> <p>Approval of significant changes to overall staff terms and conditions of employment.</p> <p>Approval of annual pay increases.</p>	<p>The structure of the senior management team, subject to Board approval.</p> <p>Appointments at senior management team level and decisions on remuneration, within the agreed establishment and pay scales.</p> <p>All appointments and other HR issues below the level of the senior management team, within the agreed establishment and pay scales.</p> <p>Under guidance from the Chairman, ensuring necessary resources and facilities are available to enable Board members to develop and maintain the knowledge necessary to enable them to discharge their duties</p>	

<b>Subject</b>	<b>Reserved to the Board</b>	<b>Delegated to/responsibility of the Chief Executive</b>	<b>Delegated to the Audit Committee</b>
Audit contract matters	<p>Oversight and any necessary approval of PSAA’s contracts with its appointed auditors.</p> <p>Approval of the fees strategy and setting the scales of fees annually. In the event of surplus funds, approval of the level of distribution of the surplus to audited bodies and the formulae to be used to do that.</p> <p>Approval of the audit firm for auditor appointments at audited bodies.</p> <p>Approval of changes to auditors’ overall terms of appointment.</p> <p>Consideration of significant contract delivery issues arising from the work of appointed auditors.</p>	To report to the Board matters of significance arising from the work of appointed auditors.	
Communication issues	<p>Approval of communications strategy.</p> <p>Approval of communication plans in respect of matters that are of public, political or reputational significance.</p> <p>The Board delegates clearance of press releases to the Chairman and Chief Executive.</p>	The Chief Executive and the Chairman to liaise on the sign-off of all press releases and public statements.	

<b>Subject</b>	<b>Reserved to the Board</b>	<b>Delegated to/responsibility of the Chief Executive</b>	<b>Delegated to the Audit Committee</b>
Company administration	The cycle of Board meetings, the composition of Board agendas and approval of minutes of Board meetings.	<p>Ensuring the Board can function properly through appropriate support arrangements, working with the company secretary.</p> <p>Making recommendations for the cycle of Board meetings, and for the composition of agendas for meetings.</p> <p>Preparing draft minutes and maintaining efficient overall arrangements for the administration of PSAA.</p>	
Litigation	Approval of decisions on litigation.	Informing the Board about litigation or potential litigation, working with the company secretary.	
Company pension scheme	<p>Approval of the Company's arrangements for staff pensions.</p> <p>Approval of the rate of employer and employee contributions into the scheme.</p>	The Chief Executive shall make appropriate arrangements in line with Board decisions.	

## Appendix 1 – Principles underpinning PSAA’s corporate governance framework

PSAA has regard to the principles set out in the [Code of Conduct for Board Members of Public Bodies](#) and in the [UK Corporate Governance Code](#), to the extent this can be applied to a small company without shareholders.

### **Code of conduct for board members of public bodies (Cabinet Office, 2011, updated June 20-19)**

All holders of public office are expected to work to the highest personal and professional standards. In support of this, all non-executive board members of UK public bodies are required to abide by the principles set out in the Code of Conduct issued by the Cabinet Office.

The Code is based on the seven principles of conduct underpinning public life:

- **Selflessness:** holders of public office should act solely in terms of the public interest.
- **Integrity:** holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- **Objectivity:** holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- **Accountability:** holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- **Openness:** holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- **Honesty:** holders of public office should be truthful.
- **Leadership:** holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

### **The UK Corporate Governance Code (Financial Reporting Council, 2018)**

The main principles of the UK Corporate Governance Code dated July 2018 relevant to PSAA are set out below. This version of the Code applies to accounting periods starting on or after 1 January 2019. PSAA’s aim is to have regard to the intent of these principles, to the extent that they can be applied to a small company without shareholders.

## **1. Board Leadership and Company Purpose**

- A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company contributing to wider society.
- B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.
- C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.
- D. In order for the company to meet its responsibilities to stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

## **2. Division of Responsibilities**

- F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.
- G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.
- H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.
- I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

## **3. Composition, Succession and Evaluation**

- J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.
- L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

## **4. Audit, Risk and Internal Control**

- M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

- N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

## **5. Remuneration**

- P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.
- R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

## Appendix 2 – Standing Orders

### 1 Introduction

- 1.1 Standing Orders, together with delegated powers and financial policies, provide a procedural framework within which the Company discharges its business. They deal with the business of the Company, procedure at meetings of the Board and any committees, delegation of powers, declaration of interests and standards of conduct.
- 1.2 The delegated powers and financial policies have effect as if incorporated into the Standing Orders. Board members (the Directors) and members of staff should be aware of the existence of these documents and, where necessary, be familiar with their detailed provisions.

### 2 Place of business

- 2.1 The principal place of business of PSAA Limited is 18 Smith Square, London SW1P 3HZ.

### 3 Meetings of the Board

#### Calling meetings

- 3.1 As set out in the Company's Articles, any Board member may call a Board meeting by authorising the company secretary to give notice of the meeting to directors.

#### Notice of meetings

- 3.2 Notice of a Board meeting must be given to each director but need not be in writing.
- 3.3 Notice of the meeting must indicate: the proposed date and time of the meeting, where it is to take place, and the communication arrangements for directors who are not able to attend the meeting location in person.
- 3.4 The accidental omission to give notice to, or the non-receipt of notice by, any Board member will not invalidate the proceedings of the meeting. However, failure to serve such a notice on more than three members will invalidate the meeting.

#### Business to be transacted

- 3.5 The Chairman draws up the meeting agendas, in consultation with the Board and the Chief Executive.
- 3.6 No business other than that specified in the meeting notice will be transacted at a meeting unless the business is of an urgent nature, or is required by statute to be transacted and at least two-thirds of the Board members present decide that the business shall be transacted.
- 3.7 A Board member wishing a matter to be included on an agenda should send a request in writing to the Chairman at least 10 clear days before a meeting. Requests made less than 10 days before a meeting may be considered for inclusion at the Chairman's discretion.
- 3.8 Declarations of interest will be a standing item on every agenda.

#### Quorum

- 3.9** At any meeting of the Board, the quorum will be three members.
- 3.10** If a Board member has been disqualified from participating in a discussion or resolution to be taken because of declaration of a conflict of interest (see SO 11.1), he/she shall no longer count towards the quorum. If a quorum is then not available for the discussion or resolution to be taken about any matter, that matter may not be subject to a decision. The Chief Executive shall ensure this situation is recorded in the minutes of the meeting.

### **Record of attendance**

- 3.11** The Chief Executive shall record the names of all members present at a meeting of the Board in the minutes of the meeting.

### **Chairmanship of meetings**

- 3.12** The Chairman presides at all Board meetings. In his/her absence, a nominated deputy presides. The Chairman determines the detailed procedure for the conduct of business at meetings of the Board and the Chairman's decision on questions of order will be observed at the meeting, subject to the provisions of Standing Orders.

### **Voting**

- 3.13** Unless these Standing Orders provide otherwise, any question arising before the Board will be determined by a majority of the members present. A member absent at the time of the vote may not vote by proxy. In the event of an equality of votes, the Chairman will have a second or casting vote.
- 3.14** The procedure for voting will be a matter for the Chairman at the meeting, subject to any decision of a majority of the Board to the contrary, including:
- the form that voting shall take, whether by a show of hands, or by some other means; and
  - any question whether or not to record the voting in the minutes to show how each Board member present voted or abstained.
- 3.15** Board members may ask for their dissenting views on any matters to be recorded in the minutes.

### **Adjournment**

- 3.16** Any meeting of the Board may be adjourned at the discretion of the Chairman. Reasonable notice will be given, where practicable, of the date and time of the reconvening of the adjourned meeting, if the Board considers it necessary. Otherwise the Chairman will decide which agenda items will be carried forward to the next ordinary Board meeting.

### **Minutes**

- 3.17** Draft minutes of each Board meeting will be drawn up under arrangements put in place by the Chief Executive. They will be submitted to the Chairman for comment and subsequently placed on the following Board agenda for approval by the Board. There will be no discussion of the minutes except on their accuracy, or on matters arising from them.
- 3.18** Minutes will be circulated and published as directed by the Board.

## **4 Delegation of powers**

- 4.1** The Company has specified those matters that are reserved to the Board for decision, and those matters that may be delegated to the Chief Executive. The Chief Executive may, in turn, delegate any matter within his/her authority to another Company member of staff. Any person to whom a matter is delegated by the Chief Executive, or under arrangements approved by him/her, will carry the authority of the Company in respect of the matter so delegated.
- 4.2** The Board will review and approve the delegations, as part of the Corporate Governance Framework, annually.

## **5 Urgent or non-contentious business**

- 5.1** Urgent business is deemed to be any matter requiring a Board decision before the date of an ordinary, or extraordinary, Board meeting. In such cases, the Chief Executive, working with the company secretary, should take all practicable steps to consult with the Chairman, his/her nominated deputy, and as many other Board members as the Chief Executive considers appropriate (and, if at all possible, no fewer than three Board members). The Chief Executive should seek Board members' views as to:
- the urgency of the matter requiring decision;
  - the possibility of holding a Board meeting to consider it; and
  - the action to be taken.
- 5.2** The Chief Executive should decide, in the light of Board members' views, what action to take; should notify as many Board members as practicable (and in any event no fewer than three) of the proposed action; and should allow as much time as he/she considers reasonable in the circumstances for Board members to comment on the proposals. The Chief Executive should then act as he/she considers appropriate.
- 5.3** The exercise of such powers will be included in the Chief Executive's report to the next meeting of the Board, which will consider whether further action is required.
- 5.4** If, in the opinion of the Chairman and the Chief Executive, any matter requiring a decision of the Board is unlikely to be contentious, the Chief Executive may give notice of a proposed resolution, together with any necessary explanation and information, to all members of the Board in writing.
- 5.5** A resolution under SO 5.4 shall be valid and effective without a meeting of the Board provided that, by the end of the sixth working day following the day on which notice was sent, no Board member who would be entitled to attend and vote on the matter at a meeting has indicated disagreement.
- 5.6** In the event of such disagreement, the matter shall be referred to the next meeting of the Board for decision.
- 5.7** Such a resolution will be reported to the next meeting of the Board as having been made on the last day of the period referred to in SO 5.5.

## **6 Committees**

- 6.1** The Board may establish standing or ad hoc committees, consisting of such numbers and for such purposes as the Board may determine.

- 6.2** The provisions of these Standing Orders shall apply where relevant to the operation of all committees, unless these Standing Orders specify otherwise.

## **7 Membership of committees**

- 7.1** Committees are established and appointed by the Board.
- 7.2** A person who is not a member of the Board may participate in a committee discussion and advise, but may not take part in any decision on the exercise of any Company functions unless the Board so determines, and unless the Board members form a majority of those present.
- 7.3** Dates and venues of ordinary committee meetings will be set in advance and circulated as directed by the committee chairman. Such meetings shall be known as ordinary committee meetings. An extraordinary committee meeting may be called at any time by the chairman of the committee in accordance with SO 3, as if the references there to the Chairman were to the chairman of the committee, and the references to the Board were to the committee. Details of all business to be transacted at committee meetings shall be sent to any Board member who has specifically requested them. Any Board member can attend, as an observer, any committee meeting of which he/she is not a member.

### **Quorum**

- 7.4** Unless a quorum is specifically set down in this framework for a committee, the quorum of members who must be present in person, or by telephone, at any meeting of a committee will be half the voting membership of that committee (rounded up in the case of odd numbers of members). The Board may set a higher quorum for individual committees.

### **Reporting**

- 7.5** The chairman of the committee shall report the minutes of committee meetings to the next appropriate meeting of the Board.

## **8 Declaration of interests**

- 8.1** Board members are required to declare any interests that are relevant and material to the Company and which they might reasonably be expected to know about. All members should declare such interests on appointment, as soon as they arise, or as soon as they become aware of them. Declarations of interest will be a standing item on all committee agendas.
- 8.2** Interests that should be regarded as 'relevant and material' are circumstances in which there is a real possibility of bias, including those in which a Board member or his/her close family or any nominee:
- is a paid employee, partner, director or proprietor of a company or other body with which the Company has, is entering into or is proposing to enter into, a contract;
  - is a trustee or on the management committee, or other controlling body, of a non-profit making organisation with which the Company has significant dealings;
  - has a controlling interest or has shares or securities with a nominal value of more than £25,000 or one-hundredth of the total issued share capital in a company or organisation with which the Company has, is entering into or proposing to enter into a contract; and/or
  - has a direct interest in any land or property that is used by the Company.

**8.3** Certain disclosures must be published in the annual accounts. These are disclosures relating to Board members and staff who are in a position of influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation:

- where the Company appoints the auditor;
- that is a central government department; and/or
- that is a provider or receiver of significant services to, or from, the Company.

**8.4** In the case of persons living together as a family, the interest of one shall, if known to the other, be deemed for the purpose of these Standing Orders to be also an interest of the other.

## **9 Exemptions**

**9.1** SO 8 above does not apply to an interest in a contract, proposed contract or other matter which a member has as a council tax payer of a local authority.

**9.2** A Board member will not be treated as having a pecuniary interest in any contract, proposed contract or other matter by reason only of an interest of his/hers or of any company, body or person with which he/she is connected as mentioned in SO 8 above, which is so remote or insignificant that it cannot be reasonably regarded as likely to influence a member in the consideration of, or in voting on, any question with respect to that contract or matter.

## **10 Register of interests**

**10.1** A general notice given in writing to the Chief Executive by a Board member to the effect that he/she or his/her spouse or nominee has a relevant and material interest as defined in SO 8 above shall, unless and until the notice be withdrawn, be deemed to be a sufficient disclosure of his/her interest in any contract, proposed contract or other matter that may be the subject of consideration after the date of the notice.

**10.2** Particulars of any disclosure made under the foregoing provisions shall be recorded. This register will include details of all relevant and material interests as defined in SO 8 above. These details will be updated annually and any changes to interests declared during the previous twelve months will be included in the register, which will be published on the Company's website.

## **11 Procedure at meetings**

**11.1** If any Board member has a direct or indirect interest (as defined in SO 8 above) in any contract, proposed contract or other matter and is present at a meeting of the Board or a committee at which the contract or other matter is the subject of consideration, he/she shall, at the meeting and as soon as possible after its commencement, disclose the fact. The Board member will not take part in the consideration or discussion of the contract or other matter or vote on any question with respect to it unless, exceptionally, the Board considers the interest to be of a nature which brings no risk of a real or perceived conflict of interest. Where, in accordance with the above, a member does not participate in the consideration of a matter, he or she shall normally withdraw from the meeting during that item of business, unless the Chairman deems it unnecessary. All disclosures of interest will be recorded in the minutes of the meeting.

**11.2** If any Board member:

- a) is a member or an elected mayor of an opted-in authority, or is an opted-in police and crime commissioner, or has held any such office within the previous three years; or
- b) is an employee of an opted-in authority or has been such an employee within the previous three years; or
- c) is a director, partner or senior manager of an entity which, or an individual who, carries out work or provides services or supplies goods to an opted-in authority, or receives funding from an opted-in authority, or has done so within the previous three years; or
- d) is engaged in business with a member or an elected mayor of an opted-in authority or an opted-in police and crime commissioner or an employee of an opted-in authority, or is a director, partner or senior manager of the entity carrying on that business; or
- e) has made an objection to the auditor at an opted-in authority within the past three years

(each such opted-in authority being referred to in relation to the Board member as the 'Relevant Body' in the remainder of this SO)

and is present at a meeting of the Board or a committee, the Board member will not take part in the consideration or discussion of or vote on any question with respect to the following matters:

- (i) the appointment or removal or performance of the auditor for that Relevant Body;
- (ii) the appointment or removal or performance of the auditor for an opted-in authority working in partnership or collaboration with that Relevant Body in a manner that may impact on audit responsibilities;
- (iii) the setting or variation of the fee for the audit of the accounts of that Relevant Body (but not the specification of the scale of fees for opted-in authorities generally);

and shall withdraw from the meeting declaring that this Standing Order applies to him or her unless, exceptionally, the Board considers the interest to be of a nature which poses limited risk of a real or perceived conflict of interest in which case it may exercise discretion about whether the Director concerned may be present and/or may participate in the discussion and/or may vote in relation to the relevant matter.

## **12 Standards of conduct**

- 12.1** Board members are required to comply with the standards of conduct set out in this framework. Company staff are required to comply with the standards of conduct set out in the Company's staff terms and conditions and human resources policies.

### **Use of information**

- 12.2** No Board member shall use information gained in the course of their duty for personal gain nor seek to use the opportunity of the public service to promote their own or other parties' private interests. Members should at all times avoid behaving in a manner which might bring the Company into disrepute.

### **Gifts and hospitality**

- 12.3** No member may corruptly solicit or accept any gift or consideration as an inducement for doing or refraining from doing, or showing favour or disfavour to any person in an official capacity.
- 12.4** Members should exercise the utmost care in accepting hospitality or gifts where there could be a real or perceived conflict with their official duties at PSAA. They should declare

in the hospitality register all such gifts or hospitality (whether accepted or not) where the cumulative value from any one organisation or individual exceeds £200 in any 12 month period or £50 for any one gift. The hospitality register will be maintained by the Chief Executive and will be published on the Company's website.

## Appointments

- 12.5** No Board member shall solicit any employment by the Company for any person with intent to bypass due process. This Standing Order shall not preclude a member from giving written testimonial of a candidate's ability, experience or character for submission to the Company.

## Relatives of Board members

- 12.6** Board members shall disclose to the Chief Executive any relationship with a candidate for a staff appointment of whose candidature he/she is aware. The Chief Executive shall report to the Board any such disclosure made.
- 12.7** On appointment, Board members should disclose to the Chief Executive whether they are related to any other Board member or holder of any office under the Company.

## 13 Indemnity

- 13.1** Provided that a member has acted honestly and in good faith, the Company will indemnify him/her against any civil liability that may be incurred by him/her in the execution or purported execution of Board functions, save where the member has acted recklessly.

## 14 Suspension and amendment of standing orders

### Suspension of standing orders

- 14.1** At any meeting the Board may, by a majority of not less than two-thirds of those present and voting, resolve to suspend these Standing Orders for the duration of the meeting or of any item of business to be transacted at the meeting, provided that:
- suspension of Standing Orders does not contravene any statutory provisions or directions;
  - any decision to suspend Standing Orders is recorded in the minutes; and
  - a separate record of matters discussed during the suspension is kept.

### Amendment of standing orders

- 14.2** These Standing Orders may be amended by alteration, addition or deletion, provided that:
- amendment or variation of the standing orders does not contravene any statutory provisions or directions;
  - at least five days' notice shall be given of the proposed amendment; and
  - the amendment shall be approved by a majority of not less than two-thirds of the Board members present and voting at the meeting in which it is moved.
- 14.3** The Board will review the Standing Orders as part of the Corporate Governance Framework. The review will include all other documents having effect as if incorporated into Standing Orders.

## Appendix 3 – Summary of the statutory framework for the Company

### Administrative law

- 1 As a private limited company, PSAA Limited is subject to provisions of the Companies Act 2006. The Company must act reasonably (in the sense that it should not act in a manner in which no reasonable body such as PSAA would act) and should base its decisions on relevant considerations, disregarding irrelevant factors. The Company, and the Board, should be objective and impartial and bear in mind that the Company is an independent body with delegated statutory responsibilities under the Local Audit and Accountability Act 2014, and not part of government.

### Statutory functions

- 2 PSAA is constituted under the Companies Act 2006 and is subject to the principle that it can only do the things which are contained in its Articles and Memorandum of Association. It must be possible, in relation to any act or decision of the Company, to identify the legal authority on which the Company is relying.

### The Local Audit and Accountability Act 2014

- 3 The Local Audit and Accountability Act 2014, and for audits of the accounts of relevant authorities up to 2017/18 any provisions saved from the Audit Commission Act 1998 delegated to the Company on a transitional basis, are the principal sources of legislation relating to the Company's functions.
- 4 The Company was created by the Local Government Association (LGA) on 15 August 2014. The delegated functions for which it is responsible were conferred by the Secretary of State following a Commencement Order initially dated 23 March 2015 and updated on 27 June 2016. Letters of delegation from the Secretary of State set out the details of the transitional delegations.
- 5 The Company was specified as an appointing person for principal local government bodies on 18 July 2016, under the provisions of the Local Audit and Accountability Act 2014 and supporting Regulations, for audits from 1 April 2018.
- 6 The functions of the company are rooted in the Local Government Finance Act 1982, as amended by the Audit Commission Act 1998 and subsequently by the Local Government Act 1999, the Local Government Act 2003, the Health and Social Care Act 2003, the Public Audit (Wales) Act 2004, the Children Act 2004, the Fire and Rescue Services Act 2004, the Local Government and Public Involvement in Health Act 2007, the Serious Crime Act 2007, the Housing and Regeneration Act 2008, the Local Democracy, Economic Development and Construction Act 2009, the Localism Act 2011 and the Local Audit and Accountability Act 2014.

### Appointment of auditors

- 7 PSAA was created by the LGA to be independent of local public bodies, central government and the LGA. A letter of delegation from the Secretary of State sets out, on a transitional basis, the delegated responsibility under saved provisions from the Audit Commission Act 1998, to appoint auditors to audit the accounts of specified bodies.
- 8 For audits from 2018/19 PSAA has been specified to appoint auditors under provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations

2015 to principal local government and police bodies which elect to opt into PSAA's national scheme.

### **Code of Audit Practice**

- 9 From 1 April 2015 the statutory Code of Audit Practice is prepared and maintained by the National Audit Office (NAO). Auditors are required to comply with the Code, which has to embody what appears to the NAO to be best professional practice.

### **The statutory audit**

- 10 Auditors appointed by PSAA have a range of functions not normally associated with the conventional audit of accounts. They have to satisfy themselves that the audited body 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'; they have a power to issue a public report, and in some circumstances they can intervene or take a local authority to court to challenge an authority's decision or failure to act where they reasonably believe this would affect the accounts of that authority. The audits for which the Company has responsibility for appointing the auditors pre-date the Company's creation and are the subject of considerable case law. The audit of accounts for some audited bodies to which the Company appoints the auditors is further regulated from 1 April 2015 by the Accounts and Audit (England) Regulations 2015.

### **The Company is not the auditor**

- 11 The Company appoints the auditor. The Company does not itself have the functions of the appointed auditor. In practice this means that the Company cannot direct an auditor as to the decision he or she should reach and cannot substitute its own judgement for that of the auditor. With the power to appoint auditors comes, by implication, the power to consider whether to re-appoint or to remove an auditor.

### **Statutory scales of fees**

- 12 The Company has a duty to prescribe a scale or scales of fees for the audit of the accounts of relevant authorities. The Company must consult before prescribing a fee scale.

### **Restriction on Disclosing Information**

- 13 Under Section 36 and schedule 11 of the 2014 Act, information relating to a particular body or person and obtained by the Company or an auditor in the course of carrying out their functions may only be disclosed in specified circumstances.
- 14 Unless covered by paragraphs 17 or 18 below, disclosure in any other circumstance is a criminal offence.

### **Governance and proceedings**

- 15 A Memorandum of Understanding between the Ministry for Housing, Communities and Local Government, the LGA, the IDeA and the Company details the provisions relating to the Company's governance. In particular:
- the Secretary of State has no power to direct the Company as to the discharge of its functions;
  - the Company has discretion to appoint such officers and servants as it considers necessary for the discharge of its functions. They may be appointed at such remuneration and on such other terms and conditions as the Company may determine; and

- it is the duty of the Company to manage its affairs so that its income from fees and otherwise will, taking one year with another, be not less than its expenditure properly chargeable to its income and expenditure account.

### **GDPR and the Data Protection Act 2018**

**16** The Company and its appointed auditors are ‘data controllers’ under data protection legislation. This provides a framework to ensure that personal information is handled properly and gives individuals the right to know what information is held about them. As data controllers, the Company and its appointed auditors must ensure that they process personal information in accordance with individuals’ rights under the legislation and respond to requests for personal information within the statutory time limits.

### **Freedom of Information Act 2000**

**17** The Company is subject to the Freedom of Information Act 2000 as amended (FOIA), following changes to the legal status of the LGA from 1st April 2019 as an unlimited company under the Companies Act 2006, resulting in the IDeA becoming subject to FOIA. The Company is required to comply with requests for information unless a defined exemption applies. However, the Company’s appointed auditors exercise separate statutory powers to the Company and are not subject to FOIA.

### **Environmental Information Regulations 2004**

**18** The Company is required to comply with requests for environmental information unless a defined exception applies.

**19** The definition of ‘environmental information’ is wide and covers elements of the environment, such as land, water, biological organisms, but also measures and any activities that may affect these, including economic analysis of such measures and activities.

## Appendix 4 – Financial policies

### Background

- 1 The Company's core objectives include a commitment to being financially responsible and safeguarding fees charged to audited bodies. This document sets out the Company's arrangements for meeting that objective.
- 2 The Company's financial policies set out the high-level financial controls for securing value for money for the taxpayer. They also set out the role and responsibilities of the Board, the Chief Executive and the Chief Financial Officer.
- 3 The Company's financial policies form part of the Company's Corporate Governance Framework. The Board is responsible for approving the financial policies or any changes as recommended by the Audit Committee.
- 4 The Company's financial procedures set out the day-to day arrangements and delegated responsibilities for implementing the financial policies.
- 5 The Company's financial policies and financial procedures are consistent with the relevant sections of the Companies Act 2006 and the principles of HM Treasury's [Managing Public Money](#) where appropriate.

### Responsibilities for financial management

#### The Board

- 6 Part 3 of the Corporate Governance Framework sets out the roles and powers reserved to the Board on financial management.

#### The Chief Executive

- 7 The Chief Executive has overall executive responsibility for the effective delivery of the Company's strategic and day-to-day financial affairs. He/she must advise the Board on the legal obligations set out in the Companies Act 2006 and the principles set out in HM Treasury's Managing Public Money.
- 8 The Chief Executive role carries with it personal responsibility to ensure that appropriate advice is given to the Company on all matters relating to financial propriety and regularity, for keeping proper accounts, and for the efficient and effective use of resources.
- 9 In line with the principles set out in Managing Public Money, the Company's Chief Executive has the following specific responsibilities that he/she cannot delegate to another officer:
  - a) Ensuring that the Company operates effectively and to a high standard of probity.
  - b) Ensuring that the Company has effective internal control systems for financial procedures, governance, risk and performance management.
  - c) Maintaining the Company's financial policies including:
    - (i) **Annual review.** Completing a review and reporting proposed changes to the Audit Committee for recommendation to the Board for approval as part of the Company's annual review of its Corporate Governance Framework.

- (ii) **Ongoing review.** Keeping the financial policies up to date as the Company's circumstances change and reporting proposed amendments to the Audit Committee for recommendation to Board for approval.

- 10 In line with the principles set out in Managing Public Money, the Chief Executive also has overall responsibility for all other aspects of financial management. He/she may formally delegate these responsibilities, but not the accountability for them, to other Company officers in line with the requirements set out in these financial policies and through the Company's detailed financial procedures.
- 11 The Chief Executive's overarching financial management accountabilities and responsibilities are:
  - a) Ensuring the Company uses its resources efficiently, economically and effectively, avoiding waste and extravagance.
  - b) Ensuring the provision of effective financial advice to the Board and Audit Committee.
  - c) Planning and delivering the financial framework agreed with the Board.
  - d) Carrying out procurement and project appraisals objectively and fairly, seeking good value for the public sector as a whole.
  - e) Using management information systems to secure assurance about value for money and the quality of delivery and making timely adjustments.
  - f) Ensuring the Company avoids undue compliance costs, either on its own staff or on its customers and stakeholders.
  - g) Using internal and external audit to improve internal controls and performance.

### **The Chief Financial Officer**

- 12 The Chief Financial Officer is a key member of the management team.
- 13 He/she must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered.
- 14 To deliver these responsibilities the Chief Financial Officer must be professionally qualified and suitably experienced. He/she must work closely with the Chief Executive at all times, leading on his/her behalf on financial issues at Board and Audit Committee meetings.
- 15 In line with the principles set out in Managing Public Money, the Chief Financial Officer has the following financial management responsibilities:
  - a) Providing financial advice to the Board at both a strategic and operational level.
  - b) Setting standards, leading, motivating and developing awareness of the finance function within the Company.
  - c) Providing sound financial advice, especially on affordability and value for money, to support effective decision making on all proposals with a significant financial implication.

- d) Coordinating the planning and budgeting processes applying discipline in financial management, including managing debt and cash flow, with appropriate segregation of duties.
- e) Leading on the preparation of the annual report and accounts.
- f) Preparing timely monthly management accounts.
- g) Reporting on compliance with financial delegations, policies and procedures.
- h) Leading on day-to-day liaison with the external auditor and internal auditor on behalf of the Chief Executive.
- i) Leading on review of financial policies and procedures on behalf of the Chief Executive.

### **Other Company staff**

- 16** All members of staff have a general responsibility for safeguarding public money and ensuring value for money. The Company's financial procedures describe other staff members' specific financial management responsibilities.

### **Status and scope of the Company's financial policies**

- 17** Board members and all employees must comply with the Company's financial policies. Any member of staff failing to comply with the financial policies may be subject to disciplinary action under the Company's disciplinary policy. The Chief Executive will report any significant breaches of Company financial policies to the Audit Committee.
- 18** Members of the management team are responsible for making sure their staff have read the Company's financial policies and financial procedures and that their staff understand and comply with their financial management responsibilities.
- 19** The Company's financial policies are consistent with the Company's policies for ICT and HR and employees should read them in parallel.

### **Amendment of the Company's financial policies**

- 20** The Audit Committee is responsible for reviewing changes to the financial policies proposed by the Chief Executive and making recommendations for change to the Board.

## The financial policies

### Capital investment and asset management

- 21 The Company will make any decision to buy, lease or dispose of assets on a case-by-case basis.

### Treasury management and banking

- 22 The Company will seek to ensure the security of its deposits over maximising investment income. The Company will keep enough liquidity (through cash, cash equivalents, short-term investments or overdraft) to meet its current commitments.
- 23 The Company will make investments in line with the treasury management policy. The Local Government Association will provide administrative services. The Audit Committee will review these arrangements annually and any amendments will be recommended to the Board for approval.

### Trade receivables

- 24 The Company normally expects debtors to pay trade receivable invoices within 30 days of the date of the invoice. Considering the costs and benefits of recovery, the Company will seek recovery of sums still owing after this period.

### Procurement

- 25 The Company will ensure all purchases comply with relevant legislation and government directions. Purchases must be for essential goods and services only.

### Trade payables

- 26 The Company will comply with agreed payment terms and will aim to pay 80 per cent of undisputed trade invoices within 10 days of the invoice date.

### Taxation

- 27 The Company will seek to ensure it identifies and pays its tax liabilities on time.

### Business and financial planning

- 28 The Company will review and update its medium-term financial plan as often as necessary to reflect changing strategic assumptions. The medium-term financial plan will support the Company's strategy.

### Budgetary control

- 29 The Company will ensure its budget setting procedures are efficient and effective and will hold managers to account for their budget responsibilities.

### Authorisation of expenditure

- 30 Items of expenditure up to £100,000 will be authorised by the Chief Executive or the nominated management team member. Expenditure above this limit requires authorisation by the Chief Executive and a nominated management team member.
- 31 Expenditure will not be authorised without a valid purchase order. Purchase orders will only

be allocated by the Chief Financial Officer or the Finance Manager. To maintain segregation of duties, these staff cannot authorise expenditure.

- 32** Distribution of surplus income to audited bodies, as agreed from time to time by the Board, will be made by BACs payments. The payment instructions will be calculated and set up with Barclays bank (through the LGA) by the Chief Financial Officer. The Chief Executive and a nominated management team member (not the CFO) will review the payment instructions by checking the accuracy of the amounts to be refunded and by verifying a sample of the audited bodies' bank details to confirmations received directly from the bodies.

**33**

Amount of purchase order	Purchase order approved by
£0 - £10,000	Chief Executive <b>or</b> Senior Quality Manager <b>or</b> Quality Manager
£10,001 - £100,000	Chief Executive <b>or</b> Senior Quality Manager
Above £100,000	Chief Executive <b>and</b> Senior Quality Manager*

- 34** \*If either of these officers is not going to be available in sufficient time then the other officer will consult with the Chairman. The Chairman will have discretionary power to authorise the Quality Manager to be the second authoriser. The Chairman will consult with the rest of the Board if he considers it to be appropriate to do so.

## Risk management and insurance

- 35** The Company will ensure it identifies, evaluates and manages risks. The Company will evaluate insurable risks and maintain a suitable insurance strategy.

## Internal control

- 36** The Company will put in place an effective internal control environment with controls providing reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and policies.

## Internal audit

- 37** The Audit Committee will review the effectiveness of the internal audit function annually.

## External audit

- 38** The Audit Committee will review the external audit function annually to ensure it remains independent and effective.

## Annual statutory accounts

- 39** The Company will produce an annual report and accounts on time, following FRS102, other relevant accounting standards and the other requirements of the Companies Act 2006.

## Claims and litigation

- 40** The Company will put arrangements in place to ensure that it handles all claims and existing or potential litigation properly. These will reflect the Company's statutory functions, the need to achieve value for money, and relevant commercial principles.

## **Fraud**

- 41 The Company requires all staff always to act honestly and with integrity, and to safeguard the public assets for which they are responsible. The Company will not tolerate any fraud perpetrated against it by its staff or any third party and will actively follow up any loss suffered. The Company's financial procedures set out the requirement to have a fraud response plan and to comply with money laundering legislation.

## **Fees and charging**

- 42 The Company will review scales of fees annually so it can meet its statutory responsibilities for setting such fees.

## **Audit contracts management**

- 43 The Company will only approve payments to, or invoices for payments from, accounting firms under its audit contracts on receipt of properly validated quarterly data returns from the firms. The Company will check, on a cyclical basis that the firm's processes and controls regarding the quarterly data returns are operating effectively.
- 44 Invoices to firms for payments will be raised by the Chief Financial Officer or the Finance Manager and will be authorised by the Chief Executive or the nominated management team member (not the CFO).

## **Expenses**

- 45 The Company will reimburse reasonable out-of-pocket expenses properly incurred while on authorised business. It is the employee's and board member's responsibility to ensure that costs are reasonable. The Company reserves the right not to pay back expenses where a claim is not compliant with the expenses policy, including submission of claims made after the period specified in the Company's financial procedures and expenses policy. The Company will discipline any employee that knowingly claims expenses in breach of this policy or makes a false claim.