Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam. The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials.

Exam: Strategic Case Study

Exam Sitting: September 2023
The Republic of Bartarland

Bartarland is an island and a sovereign state. Its total population is 3,726,000. Almost 600,000 people live in Everpool, the capital and largest city, and about twice as many in the Greater Everpool Area.

Bartarland is one of the wealthiest countries in the world as measured by gross domestic product per capita. It is also one of the most equal societies as measured by the Gini coefficient, an index showing how far a country's wealth or income deviates from an equal distribution. Bartarland scores well in measures of access to healthcare, economic freedoms and freedom of the press.

Bartarland’s wealth largely stems from it being an open economy that is attractive to foreign direct investment by multinational companies, especially high value businesses such as pharmaceuticals and technology. These multinationals employ over 25% of the workforce. They also contribute over 80% of the business taxes received by the government each year.

Aside from these high-tech businesses, the country’s economy also has a thriving agricultural sector and exports significant amounts of cattle, grain and dairy products. Bartarland’s major imports are oil, gas, chemicals and textiles.

Excluding 2020, the economy has grown at an average of 6 per cent a year for the last decade. Over the same period the government has managed to keep inflation (as measured by the Consumer Price Index) at 2.5 percent a year, and it expects to maintain this over the next three years.

Politically, Bartarland is a republic with an elected president, who has some important powers but mostly fulfils ceremonial duties. Presidents serve for a maximum of two seven-year terms.
Executive powers rest with the government which is headed by the Prime Minister. The Prime Minister is appointed to the post by the National Assembly, the lower chamber of parliament. The Prime Minister in turn appoints all the other government ministers.

There is a second upper chamber of parliament, the Senate. There are 45 senators. 30 are elected by the public and the other 15 are appointed by the Prime Minister.

All national and local elections in Bartarland are on the basis of proportional representation. This means it is rare that a single party has a majority in either chamber of parliament, and the selection of a Prime Minister occurs only after negotiations take place between the party leaders.

Public finances are the remit of the Minister of Finance and Economic Development. There are strong systems of public financial management throughout the public sector. All public bodies maintain their accounts in accordance with International Financial Reporting Standards and produce financial statements with a 30th June year end.

Bartarland has consolidated all of these financial statements into whole of government accounts since the 2018/19 financial year (published in 2020).

Local government in Bartarland

Bartarland is divided into four provinces that were historically important but now have only ceremonial importance. There are no longer any provincial government bodies. There are, instead, 36 local authorities in a single tier, covering the whole country. Officially these are all district councils, although some use the title ‘city council’ or ‘county council’ to reflect the locality they serve.
The local authorities are responsible for the delivery of local public services including primary and secondary education, planning, local roads, sanitation and housing. Each authority has a directly-elected mayor with the power to appoint commissioners to support them in their duties.

The mayors and their commissioners are accountable to their district council’s elected councillors. Each district council has between 5 and 15 councillors, the number varying with the size of the population served. District councillors also have a representative function for an electoral constituency (a ward) that has a population between 15,000 and 20,000.

The local government finance system is set up so that Mayors propose the budget in terms of spending and income for the forthcoming financial year, and it needs to have majority support from the local councillors in order to be approved. The system therefore involves a degree of consultation and co-operation between the Mayor and the councillors to reach an acceptable budget.

The largest element of funding for local government comes from property tax. Property tax is payable on domestic, commercial and industrial premises and also on undeveloped land. The tax is calculated for a property as a percentage of assessed annual rent, and the assessed annual rents have to be reviewed by the National Valuation Agency at least once every seven years.

Each council area has a different mix of properties and each Council is free to set different rates of property tax on commercial and industrial properties and land. It is permissible for local councils to use property tax rates to compete against each other for inward investment. The only limit is the market’s willingness to pay the property tax. The rates of property tax, plus any policies for reliefs, rebates and exemptions, have to be approved by a majority of councillors.
Central government regulates the level of domestic property tax by setting it at 10 per cent of assessed annual rent, for all domestic properties in the whole country.

Local councils receive a small amount of income through the fees they levy for various services (such as planning consent fees).

There is a system of grants from central government to support local government. Council Support Grant (CSG) is a general grant paid to each council for overall budget support. Its aim is to equalise funding amongst councils by giving larger amounts to those councils whose property tax base is smaller, relative to their populations and need to spend on services.

In the past, the statistical data underpinning the CSG were updated every year, but for the last six years the government has applied a simple across-the-board uplift to the 2017 grant amounts.

There are numerous national government projects every year where local councils are the delivery agency. Such projects are usually implemented by paying specific grants, with relevant conditions or stipulations, to local councils.

Local councils, like all national government ministries and other public sector agencies, use 1 July to 30 June as their financial year.

**Midhampton City Council**

Midhampton City Council (MCC) provides local services for the city of Midhampton, the country’s third largest city. The city has a population of 228,000. It is commonly recognised as the most deprived of Bartarland’s major towns and cities. It was not always so.
Throughout most of the twentieth century it was the wealthiest city because it was the heart of Bartarland’s manufacturing industry. A hundred years ago there were more millionaires in Midhampton than all of the rest of the country.

Midhampton has been in economic decline since the 1980s. There have been countless economic regeneration schemes during the last 40 years. Some have been better than others at achieving their goals but, overall, the levels of unemployment, poverty and crime have remained high.

These days the major employers in the city are public sector organisations. MCC is the largest single employer, followed by the main city hospital. The national prison service has four prisons of different security levels within the city’s boundaries, and together they are the city’s third largest employer. The national Ministry of Finance has a large office in the city for processing state pensions, and this is the city’s fourth largest employer.

MCC has been financially challenged throughout this period, too. When the city was prosperous there was less need for local government services and therefore the taxes were low. Since the 1980s, the demand for public services rose in inverse proportion to the reduction of the property tax base. MCC has been very much in need of the CSG to be able to balance its books.

The Mayor of Midhampton, Nguta Ithia, has been very vocal in his criticism of the national policy of simply uplifting the CSG each year. He believes this has unfairly and negatively affected MCC’s finances, and forced budget cuts to be made. His likely opponent in the 2024 mayoral election, Mia Wong, argues the opposite: that the CSG has been a subsidy from the national taxpayers and MCC should find efficiency savings in order to provide services within its means.
MCC’s finance department

Jennifer Wu is MCC’s Director of Finance and ICT with overall responsibility for managing a department of over 200 people, as well as being the primary advisor to the Mayor and the Council on all financial matters. She trained as an accountant in a private sector firm and most of her post-qualification career was in management consulting firms. This is her first public sector job.

The department has five divisions:

- **Accounting**: responsible for financial and management accounting, and treasury management

- **Exchequer**: responsible for accounts payable, accounts receivable and payroll

- **Internal Audit**: responsible for internal audit, governance assurance and anti-fraud work

- **Local taxation**: responsible for billing and collecting all local taxes

- **Information Services**: responsible for strategic and operational ICT support.

One of the department’s challenges in recent years has been retaining qualified accountants in both the accounting and internal audit divisions. In part this is because of competition for staff with the other public sector bodies in the city, but also because the high-tech firms elsewhere in Bartarland offer better salaries and benefits than MCC can afford.
**Internal audit**

Internal audit is the smallest of the five divisions within the department. Its mandate emphasises that internal audit is a consulting service that focuses on risk and governance assurance, rather than just compliance auditing.

The Head of Internal Audit (HIA) is Roberta Inverno. She began her career as a finance assistant directly after finishing secondary school. Over time she gained a CIPFA qualification and worked for a few years as a finance business partner. She switched to internal audit as a manager in 2004 and became the Head of Internal Audit in 2013.

As HIA, Roberta has a dual reporting line. She reports to the Director of Finance and ICT on a day-to-day basis, but also has a reporting line to the Audit Committee. The Audit Committee comprises four councillors (including the Chair) and three co-opted, independent members (that is, non-councillors). The Audit Committee meets six times a year.

The Chair of the Audit Committee is Councillor (Cllr) Jay Daly. The relationship between the HIA and Cllr Daly is professional, but has become strained since Cllr Daly became the Chair in July 2023. The Chair wants to change the nature of the meetings to be more investigative, by calling council officers to come before it and give evidence on a pre-selected subject. The HIA has been resisting this.

Since becoming the Head of Internal Audit, Roberta has consistently argued that her team is too small to deliver the required level of service. Since 2013 she has seen the internal audit team’s core staffing establishment fall from 17 full-time equivalents (FTEs) to 9.8 FTEs including her own post, due to gradual budget cuts and not filling posts vacated by leavers. In the last few years, as a result of a couple of embarrassing frauds, there has been an investment by the Council in resources to address the risk of fraud. This means that Roberta
has gained responsibility for a Corporate Anti-Fraud Team with 4 FTEs, as well as the core internal audit team. See table 1 for a high-level summary of the internal audit plan for 2023/24.

Table 1: Internal audit coverage 2023/24

<table>
<thead>
<tr>
<th>Directorate</th>
<th>2023/24 Days</th>
<th>2022/23 Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Schools</td>
<td>238</td>
<td>193</td>
</tr>
<tr>
<td>Finance and ICT</td>
<td>614</td>
<td>507</td>
</tr>
<tr>
<td>Growth and Sustainability</td>
<td>114</td>
<td>184</td>
</tr>
<tr>
<td>Public Health</td>
<td>77</td>
<td>51</td>
</tr>
<tr>
<td>Resources (Human Resources, Legal Services, Procurement, Policy)</td>
<td>146</td>
<td>162</td>
</tr>
<tr>
<td>Social Care</td>
<td>265</td>
<td>248</td>
</tr>
<tr>
<td>Corporate governance and assurance work</td>
<td>230</td>
<td>255</td>
</tr>
<tr>
<td>Contingency</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total: Internal Audit</strong></td>
<td><strong>1,718</strong></td>
<td><strong>1,630</strong></td>
</tr>
<tr>
<td>Corporate Anti-Fraud Team</td>
<td>758</td>
<td>645</td>
</tr>
</tbody>
</table>
Every internal audit assignment results in a written report being issued to the audited department. As a matter of course, all such reports are copied to the Director of Finance and ICT and uploaded to an intranet site for Audit Committee members to review, if they wish. Every Audit Committee meeting receives a report summarising the findings and recommendations of the internal audit assignments completed since the previous meeting.

The HIA also produces an annual report at the end of each year summarising the work that has been done in the year, and setting out the HIA’s overall opinion about the Council’s internal control and governance.

Generally, Roberta Inverno’s annual reports have concluded that the Council’s internal controls are satisfactory, but have also included some criticisms of the Council’s controls and governance. One of her main concerns is the culture of MCC. In her view, councillors and senior managers are not challenging enough when service areas underperform. There is a tendency for everyone to close ranks and be defensive, rather than looking for ways to improve and avoid future problems.

**Oldmill Homes**

The Director of Finance and ICT has recently had a conversation with a director of one of the city’s social housing providers, Oldmill Homes, about the possibility of MCC supplying an internal audit service to the housing provider. The opportunity had arisen because the existing supplier of the internal audit service, Robinson Lever & Partners, has resigned after being appointed to be Oldmill Homes’ external auditor from 2024. The existing internal audit contract will expire on 31 December 2023.
Many political commentators say that, nationally, housing policy in Bartarland is a mess. For at least twenty years the national governments have implemented policies that have made it difficult for new homes to be built and, combined with low interest rates, the result has been high house prices across the country.

Housing is a particular problem in cities other than Everpool. Home ownership is beyond the means of households with below average incomes, and outside Everpool cities have a higher proportion of low income households than elsewhere in the country. Renting a home at the full market price is also beyond these households, so the government has to have a system of subsidised social housing.

In the twentieth century, social housing was provided by Bartarland’s local councils. Collectively they owned over one million houses and apartments. In the 2000s, a series of government policies resulted in the transfer of all those houses and apartments away from councils to registered social housing providers.

A registered social housing provider is a form of non-profit organisation that is regulated by the Ministry of Housing. In most council areas across Bartarland there is only one registered social housing provider, effectively replacing the whole council’s former provision. However, in Midhampton, the Council’s housing was divided between several providers with a view to creating some competition amongst them.

Oldmill Homes is located in the Oldmill district of the city and has 4,264 housing units. Almost all of these units were built in the first half of the twentieth century by a number of large factory owners, specifically for their workers. As those businesses fell on hard times in the 1960s and 1970s, MCC acquired the houses, using loans as finance because there was no financial support from the national government of the time, and managed them as part of its
Directorate of Housing. This changed in 2008 when national government policy obliged the Council to divest itself of all of its housing units.

The Director of Finance and ICT was initially keen on submitting a bid to provide an internal audit service to Oldmill Homes, thinking it would be a way of generating some extra income for the Council at the same time as building an alliance with an important local organisation. She is less keen now that the Oldmill Homes has made it clear that there will have to be an open competitive process to award the contract.

Oldmill has advertised the opportunity to interested suppliers. They are seeking a contract beginning on 1 January 2024 with an initial three-year duration, and potential for an extension of two years.

The scope of services to be delivered are:

- Preparation of an annual risk-based internal audit plan, having consulted with senior management, for approval by Oldmill’s Audit Committee.

- Planning and execution of all assignments within the agreed audit plan, in line with professional standards.

- Provision of a report at the conclusion of each audit assignment that
  - summarises the findings of the audit
  - provides recommendations for improvement in respect of any weaknesses found by the auditors
  - provides an opinion of the level of assurance with regard to the design and effectiveness of key controls.
• Conducting follow-up reviews on previous audits to ensure recommendations have been implemented.

• Liaising and co-ordinating with Oldmill Homes’ external auditors to ensure full exchange of information.

• Production of an annual internal audit report, covering each calendar year, for submission to the first Audit Committee in the following calendar year.

• Attending the quarterly meetings of the Audit Committee to report on progress and provide advice on other matters as appropriate.

The new payroll system

MCC has recently completed the procurement process for a new, cloud-based human resources and payroll (HRP) system to be supplied by SoftPay. This is a replacement of all the existing software applications used in the Finance department for managing MCC’s payments of salaries and allowances to employees and councillors.

The project has two phases. Phase 1 is the migration away from all the current software applications to the SoftPay system. The new system’s software will be delivered on a software-as-a-service basis. This means that the software will be hosted externally at SoftPay’s data centres, and MCC will pay for the service on the basis of usage.

Phase 2 of the project is the implementation of changes to work policies and processes to improve overall efficiency and reduce the cost of support services.

The target date for completion of Phase 1 is 1 April 2024.
Candidate’s role

The candidate is Robin Patel, a newly-qualified CIPFA accountant recruited to the Accounting division. To broaden their experience and develop their management skills, Robin has recently been seconded to Internal Audit for a year, as an additional resource for the Head of Internal Audit.
Abbreviations

Cllr  Councillor

CSG  Council Support Grant

FTE  Full-Time Equivalent

HIA  Head of Internal Audit

HRP  Human Resources and Payroll

ICT  Information and Communications Technology

MCC  Midhampton City Council