

Audit Progress Report and Sector Update

Bromsgrove District Council
Year ending 31 March 2020

9 November 2020



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Introduction



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This paper provides the Audit, Standards & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Standards & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 9 November 2020

Financial Statements Audit

In our report to the 10 September Audit, Standards & Governance Committee we stated “We had initially planned to begin our work on your draft financial statements in early August, but this was put back to the beginning of September as the financial statements were not ready. On 27 August Officers notified us that they would not be able to prepare and publish the financial statements by 31 August as required by the amended regulations. We now plan to begin our audit work towards the end of September.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the end of November. However, given the delay to the start of our audit there is a significant risk that this timescale will not be achieved.”

We actually received the draft accounts on 18 September. Unfortunately our audit has not progressed as we or your officers had hoped and it is now realistic to state that our findings and audit opinion will be issued in the New Year. There are a number of reasons for this:

1) As noted above, conducting the audit entirely remotely presents significant challenges for both auditors and officers. These include the difficulties of not being able to communicate and discuss issues and questions in person, but having to share computer screens instead, as well as auditors having to watch officers run reports remotely. Our experience across all of our clients is that remote auditing has added approximately an additional 25% to the time we would normally expect. For example, in order to test that income received after 31 March is attributed to the correct financial year, we have to obtain a report showing the cash received in April and May. This took three Microsoft Teams calls between auditors and officers to obtain the correct population for our testing.

- 2) Officers have had a number of other competing commitments. These include the external audit of Rubicon Leisure Limited, continuing to implement a new finance system, responding to the various demands and challenges presented by Covid-19, as well as the “normal” day to day activities such as budget setting (for 2020/21), monitoring and reporting.
- 3) This has meant that we have not received a lot of the working papers we would expect in a timely manner. For example, at the time of writing this report (9 November):
 - a) we have been unable to select a debtor or creditor sample for either Redditch Borough Council or Bromsgrove District Council. We would expect detailed listings of these figures to be available at the start of our audit, and selection of samples for testing from those listings to be straightforward. Not having this basic audit evidence six weeks after the start of the audit is indicative of the delays experienced.
 - b) we have had several discussions with finance staff, in order to obtain a transaction listing of property, plant and equipment additions from which to select a sample. For Bromsgrove District Council we did not receive this until 28 October.
 - c) we are still waiting for responses to a number of questions we raised in the early stages of our audit, in early October.

We have referred to issues relating to Redditch Borough Council and Rubicon Leisure above as, because the same finance team is working across all of these organisations, they are inter-related and they have an impact on each other. We have discussed our concerns regarding the lack of progress weekly with the Acting Director of Resources. On 23 October we also discussed audit progress with the Chief Executive. It is clear that the Acting Director of Resources and the Chief Executive are both committed to completing the audit as quickly as possible, and more resources have been made available to use external consultants to support permanent staff. We hope that, with the Rubicon Leisure Limited audit now complete, additional resources being available and the financial ledger installation being postponed, the progress we would all like to see on the financial statements audit can now be made.

Progress at 9 November 2020 (Cont.)

Audit fees

In our audit plan to the 5 March Audit, Standards & Governance Committee we set out that our proposed audit fee would be £44,734 but that this did not include any additional fees arising from qualitative issues with the financial statements or working papers. On page four we set out some of the challenges caused by Covid-19 as well as some illustrative qualitative examples.

The additional challenges caused by Covid-19 and having to work remotely have been recognised across the sector with MHCLG extending the deadline for publishing pre audit accounts from the end of May to the end of July, with the audited accounts having to be re-advertised by the end of November instead of the end of July. In the commercial world, Companies House has automatically given all companies a three month extension for filing their accounts. As a minimum, we will be proposing an uplift to your audit fee for 2019/20 of 15% to reflect the additional work required as a result of the outbreak and we have included some specific examples of the additional time taken on the previous page.

As noted on page four, the quality of the working papers provided to us, and the timeliness of responses have not been as expected. In our audit plan we stated:

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

As your responsibilities and our requirements have not been met this will result in additional audit fees. We have discussed with the Acting Director of Resources that the total additional fee could be around £20,000, but that we will confirm this once the audit is completed and we have had an opportunity to fully assess the time delays. All additional fees need Public Sector Audit Appointment (PSAA) approval.

Progress at 9 November 2020 (Cont.)

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment were reported in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion as soon as possible although, as explained on page four, this is now likely to be in the New Year.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. Please see page 10 for more details.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is underway. In response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit, Standards & Governance Committee once our work is complete.

Given the delays we have faced in respect of the accounts audit, we will discuss with management the prioritisation of the financial statements audit or the work on the Council's housing benefit claim. In the event that the claim is prioritised this will mean further delays to the financial statements audit.

Meetings

We met with Finance Officers in May and July as part of our regular liaison meetings and continue to be in weekly discussions with finance staff, including the Acting Director of Resources, regarding emerging developments and to update on the the audit process. We also met with the Chief Executive on 23 October to discuss current issues as well as audit progress.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p>Audit Plan We are required to issue a detailed audit plan to the Audit, Standards & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements. Note we issued an addendum to our Audit Plan in April 2020 following the Covid-19 pandemic.</p>	March 2020	Complete
<p>Audit Findings Report We now aim to report the Audit Findings Report to the January Audit, Standards & Governance Committee.</p>	January 2021	Not yet due
<p>Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	January 2021	Not yet due
<p>Annual Audit Letter This letter communicates the key issues arising from our work.</p>	April 2021	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Local government reorganisation in two-tier shire counties – County Councils’ Network

The County Councils’ Network (CCN) has published new independent evidence on the implications of local government reorganisation in two-tier shire counties ahead of the publication of the government’s ‘devolution and local recovery’ white paper.

The report identifies considerations relating to:

- the costs associated with disaggregation;
- what this might mean in terms of risk and resilience of service provision;
- how service performance might be impacted;
- what it could mean for the place agenda; and
- issues arising from the response to Covid-19.

The report also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children’s trust in every two-tier area in England.

CNN note “With councils in shire counties facing billions in rising costs for care services, alongside financial deficits caused by the Coronavirus pandemic, the study from PricewaterhouseCoopers (PwC) shows merging district and county councils in each area into a single unitary council could save £2.94bn over five years nationally.”

CNN go on to comment “The report concludes a single unitary in each area would reduce complexity and give communities a single unified voice to government. It would provide a clear point of contact for residents, businesses and a platform to ‘maximise’ the benefits of strategic economic growth and housing policy; integral to the ‘levelling-up’ agenda and securing devolution.

However, the report shows replacing county and districts with two unitary authorities in each area would reduce the financial benefit by two-thirds to £1bn over five years, with three unitary authorities delivering a net loss of £340m over the same period. A fourth scenario of a two-unitary and children’s trust model in each county would deliver a net five year saving of £269m.

Alongside a minimum £1.9bn in additional costs from splitting county council services, the report outlines the establishment of multiple unitary authorities in each area creates the risk of disruption to the safeguarding of vulnerable children, while ‘instability’ in care markets could impact on the quality and availability of support packages and care home placements.”



The full report can be obtained from the County Councils’ Network website:

<https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/>

Local government reorganisation in two-tier shire counties – District Councils’ Network

The District Councils’ Network (DCN) a report ahead of the publication of the government’s ‘devolution and local recovery’ white paper.

The report comments “Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement.”

The report calls for the Devolution and Local Recovery White Paper to:

- 1) Deliver genuine devolution that moves quickly to drive local growth
- 2) Retain and build on the local capacity to deliver
- 3) Empower real-world economies
- 4) Continue to anchor local government in local communities
- 5) Reject false arguments that bigger local government is better or cheaper local government
- 6) Support strategic leadership across wider functional economic areas
- 7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.

The full report can be obtained from the District Councils’ Network website:

<https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf>



