Audit Progress Report and Sector Update

Bournemouth Christchurch and Poole Council Year ending 31 March 2020

October 2020

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Introduction

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This paper provides the Audit & 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 & 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 Paul or Sam..

Progress at 7 October 2020 – Financial Statements Audit

Financial Statements Audit

We began our planning for the 2019/20 audit in February. We commenced our interim work in March and April, although our site work was halted by the implementation of the lockdown.

Our interim fieldwork included:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems; and
- early work on emerging accounting issues.

We issued a detailed audit plan, following the conclusion of planning in early April an updated version was presented to the July Audit and Governance Committee.

As a result of the Covid-19 pandemic, the deadline for the submission of the draft financial statements was put back to the 31 August 2020. We received the draft financial statements on 29th July 2020. We commenced our substantive audit work on 16th August 2020. The target deadline for the audit opinion is currently 30th November 2020.

As reported in our audit plan, the key areas of audit focus and substantive testing will be on the following significant risk areas of the financial statements:

- Transfer of the opening balances from the predecessor authorities
- Valuation of land, buildings and investment property assets including council houses.
- Valuation of the Pension Liability
- The impact of Covid -19

We have commenced our detailed testing on property plant and equipment valuations, the pension liability, testing of income and expenditure transactions.

A detailed technical review of the draft financial statements has also commenced. This has identified that further disclosure is required in respect of the group accounts, major sources of estimation uncertainty, investment properties, debtors and a further review of the pension disclosures.

The Council has currently instructed five external and internal valuation experts to support the entries in the financial statements. As previously discussed the increased regulatory focus on this area requires that we engage our own valuation expert to review the terms of engagement and valuation reports for these experts, this work is currently underway. The impact of the number of valuation experts engaged and that the Council is currently maintaining two separate Housing Revenue Accounts has impacted significantly on the level of work required.

The impact of merging the three legacy councils financial systems has also added to the complexity and volume of work required to fully document, assess and test transactions.

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Value for Money

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 communicated in our audit plan.

One area of focus was identified at the planning stage:

- **Financial Sustainability and medium term financial planning**

The Council's response to the impact of Covid -19 on costs and income streams is an area of focus within this risk.

Our detailed work is ongoing. We would however note that the Council has significant financial challenges moving into 21/22 , along with many other authorities. The level of future Government support is not clear at this stage. The Council will need to need to continue to focus on setting a balanced budget as required by law.

Covid-19 update

Impact on working arrangements

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home.
- Grant Thornton have continued to review Central Government guidelines and start to reopen some offices across the country.
- At present, your audit team are currently working remotely and will continue to do so for the foreseeable future. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process considerably slower. We continue to work closely with your finance team to make this different way of working as efficient as possible. We would note that as at October 7th, we have only signed one set of financial statements due to the issues arising from remote working etc.
- The urgent need for the Council to respond to the pandemic and its impact on current and medium-term financial planning has also impacted on their ability to respond to queries as they arise.

Impact on accounts and audit opinions

There are a number of key issues which your finance team has had to consider as part of the year-end closedown and accounts production:

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations. At present, the Council have disclosed a material uncertainty relating to the year end balances for Property Plant and Equipment and Investment Properties. Will include specific narrative within out Audit Report drawing attention to the material uncertainties disclosed.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- Disclosure of impact in narrative report.
- Disclosure of critical judgements and material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements

- The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31st August 2020.
- For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by one year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Progress at 7th October 2020

Significant risk	Planned approach	Progress
Covid– 19 (Council and Group) The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.	We will: • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach; • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	We have: • have worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes have been made to materiality levels as a result of the impact of the pandemic. The draft financial statements were provided on 29 July 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; and • engaged the use of auditor experts for asset valuations. We are: • ensuring to obtain sufficient audit evidence through remote technology; • evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as assets; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Significant risk	Planned approach	Progress
Fraud in revenue and expenditure recognition **(Council and Group)** Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in all areas.	We have not identified any changes to our assessment reported in the audit plan.
Management override of controls **(Council and Group)** Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority and the Group face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for both the Council and Group, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk and unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We are in the process of: • Evaluating the design effectiveness of management controls over journals; • analysing the journals listing and determine the criteria for selecting high risk and unusual journals; and • analysing and selecting those journals that will require further testing. We will then: • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risk	Planned approach	Progress

Valuation of land and buildings and Investment Properties (Council and group)
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. Group assets, council houses and investment properties are revalued annually. This represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of the estimate to changes in key assumptions.
 	
Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
 	
We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.
	We will:
	• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• evaluate the competence, capabilities and objectivity of the valuation experts;
	• discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out;
	• engage our own valuer expert, Montague Evans, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
	• evaluate the assumptions made by the management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from the current value at year end.
		Management has engaged five separate valuers to undertake valuations work for the Council and group, based on the valuers engaged by the legacy authorities. This has added to the level of work required to evaluate and challenge their work.
		
		Work has been undertaken on the valuation instructions and the review of valuation reports is underway.
		
		Our detailed testing in other areas is underway.

Significant risk	Planned approach	Progress
Valuation of pension fund net liability (Council) The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The Council is a member of the Dorset Pension Fund administered by Dorset Council. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report	We have: • documented our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; and • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. We are currently: • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • We are currently awaiting a report from the auditors of Dorset Pension Fund administered by Dorset Council, we will undertake a review of this report once issued and consider whether any further action required.

Significant risk	Planned approach	Progress
Opening Balances 2019/20 is the first year of operation for the Council, the merger of the systems and activities of the three predecessor councils as well as the upper tier services, assets and liabilities transferred from the former Dorset County Council creates many challenges. On creation on 1 April 2019, the Council's opening balances are the closing balances of the predecessor councils and assets and liabilities transferred from the former Dorset County Council. We therefore identified transfer of opening balances to the new Council as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the opening balances are transferred correctly to the new Authority; • Consider the results of any work undertaken by Internal Audit on the transfer of opening balances; • Agree the assets and liabilities transferred to agreement with the former Dorset County Council; and • sample testing of opening balances for existence and to land registry documents.	We are in the process of: • understanding the amendments made to the opening balances of the three legacy Councils; and • considering the changes made to the balances transferred from Dorset County Council, since our previous review in February and obtaining supporting corroborating evidence.

Other audit areas

In addition to our work on the significant risks, work is also in progress in the following areas:

- PPE additions
- Heritage assets (group)
- Cash
- Expenditure (including welfare expenditure)
- Employee benefits
- Debtors and bad debt provision
- Creditors
- Leases
- Reserves
- Financial instruments, investments and borrowings
- Provisions
- Financial statements disclosures
- Related parties
- Collection Fund

Other areas

Certification of claims and returns

Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The detailed certification work for the 2019/20 claim is underway.

This work is complicated as the Council is currently continuing to operate housing benefit systems separately for the three former council areas. We have also engaged with officers and DwP to agree a testing approach for work required as a result of errors identified in previous years claims.

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The DwP has moved the reporting deadline back to 31 January 2021, however our plan is complete this work by the original deadline of 30 November We will report our findings to the Audit and Governance Committee in our Certification Letter in March 2021.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is currently due to be completed for the 30 November deadline.

We certify the Council's annual pooling of housing capital receipts return in accordance with procedures agreed with MHLCG. The certification work for the 2019/20 claim is currently due to be completed for the 31 January deadline, although detailed instructions have yet to be issued by the Department.

Meetings

We meet with Finance Officers every week and bi monthly with the Section 151 officer and quarterly with the Chief executive.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Chief Financial Officer, including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

All fee variations require review and agreement by PSAA.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Our fee letter was presented to the Audit and Governance Committee in January 2020	January 2020	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	July 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit and Governance Committee.	November 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	January 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

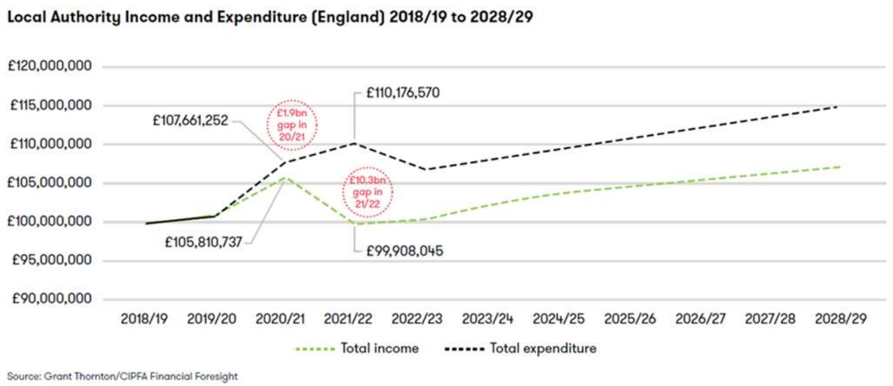
Local government

Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside Covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.



Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales, fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognised the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services.

Covid-19 and Local Government

Public services have been at the forefront of the emergency response to the Coronavirus (Covid-19) including local government. Very few local government services have not been impacted by the Covid-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to Covid-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

Covid-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of Covid-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by Covid-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

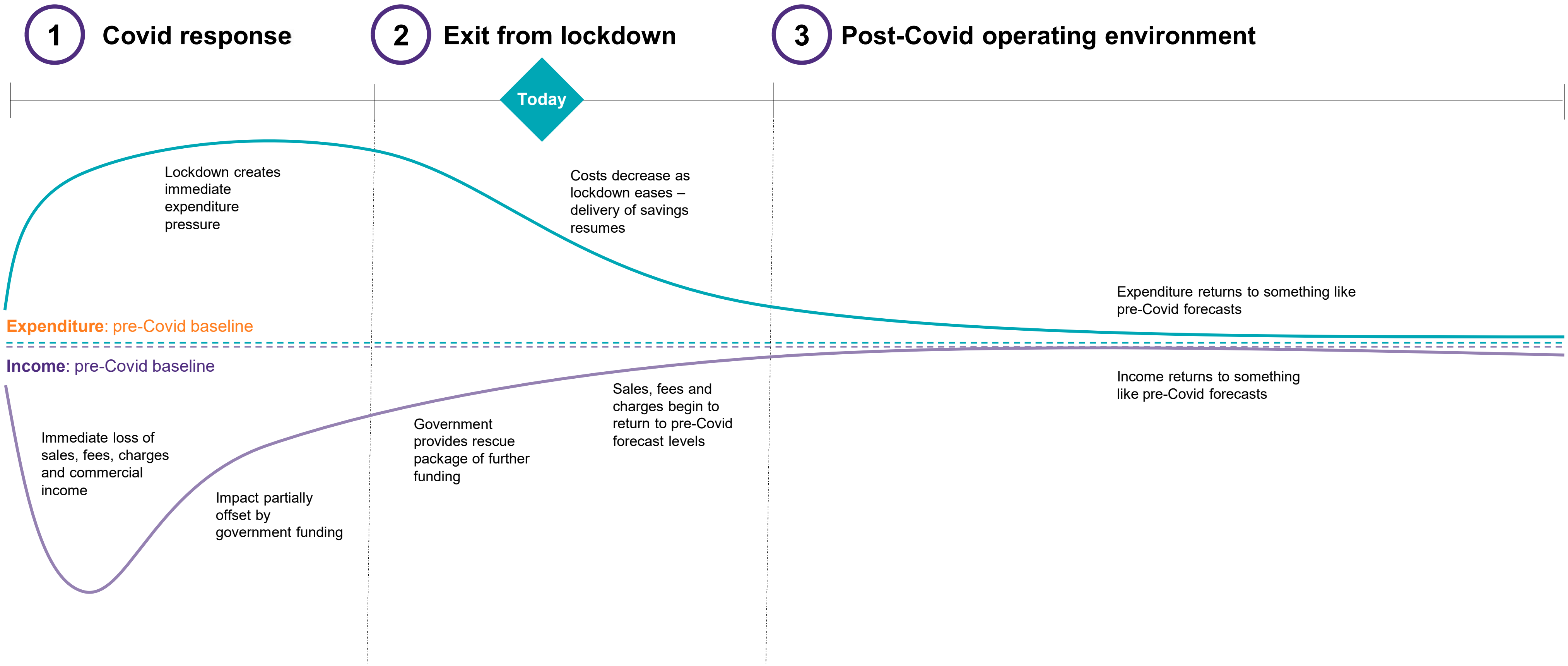
This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of Covid-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of Covid-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from Covid-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of Covid-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from Covid-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

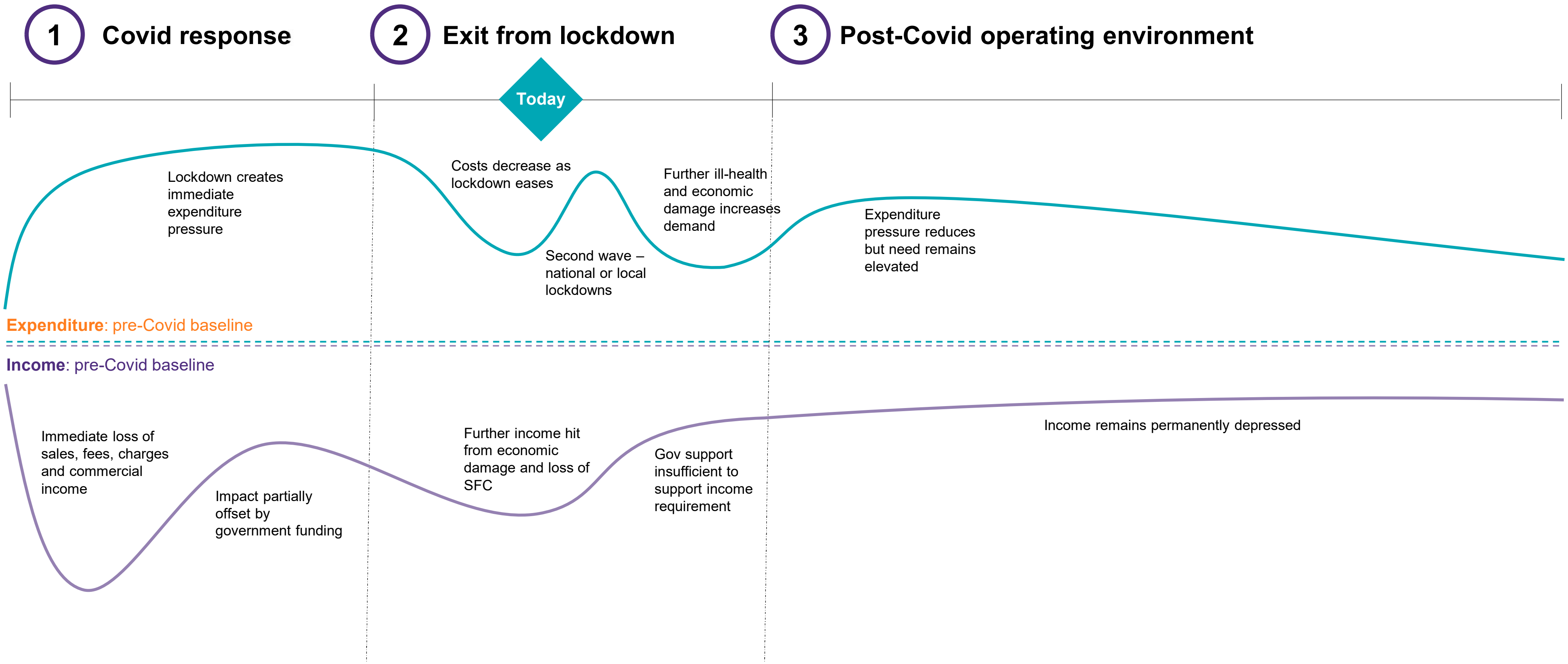
Example scenarios

Scenario 1 – swift return to normality

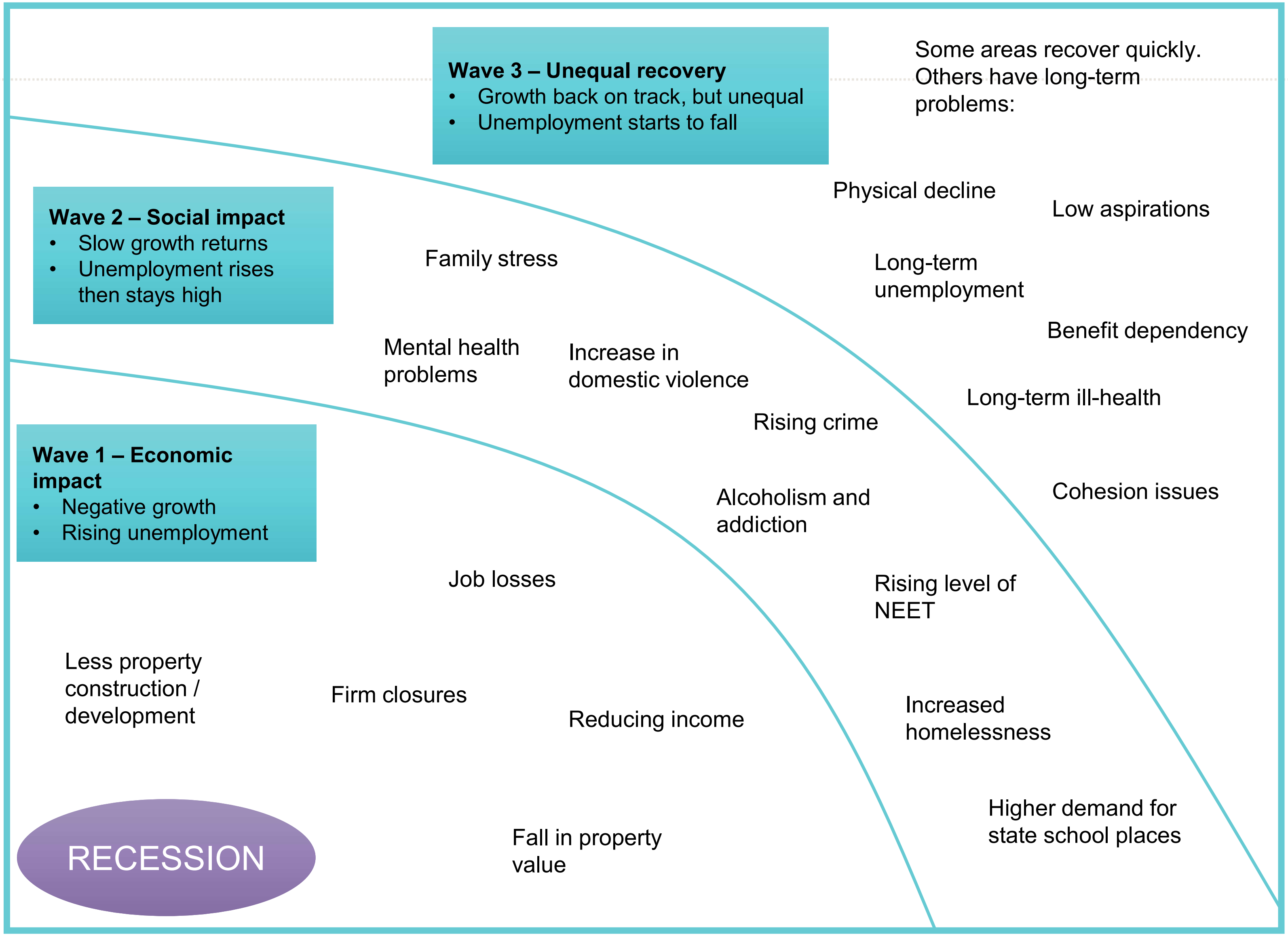


Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



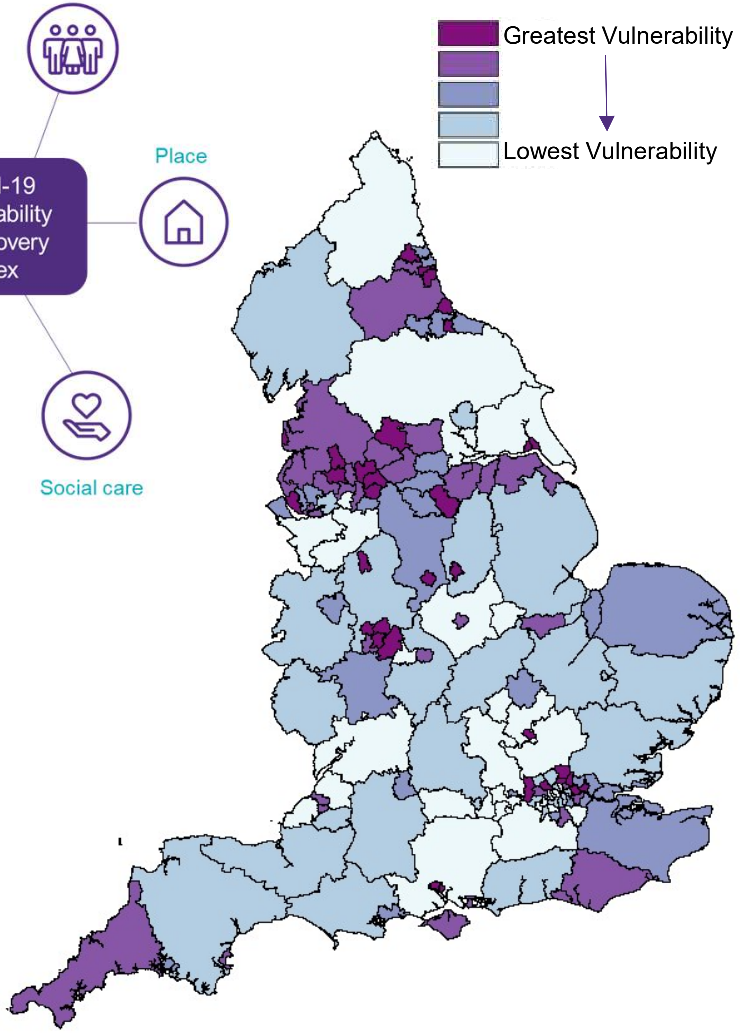
Can we learn from previous recessions?



Source: Audit Commission

Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	• Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services	• Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	• 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period	• 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	• Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system	• Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	• Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery	• Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	• Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck	• Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	• Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability	• Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances.
- Design rapid interventions - implement, test and evaluate.
- Learning from the response to lock in the good stuff – reflection on operations, services and the system.
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul.
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability.
- Contingency plans for structural disruption.
- Re-evaluate infrastructure pipeline.

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal.
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces.
- Continued system leadership, pushing for positive reform and resilience.

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and to existing government priorities such as levelling up, whilst future proofing against Covid-related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development.	Recovery plan implementation.
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release.
Planning for standing up closed services.	Place-based leadership – working with other public services, private and third sector to redefine place.
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising.	Redefining front-line services, council as match-maker, convener and incentivisor as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability.	More long-term and strategic partnerships and funding models for third sector.
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line.	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs.
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions.	Review and update Local Plan.
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments.
Renewed strategic financial planning and focus on financial management.	Emergency planning reviews and learning.
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning.
Government monitoring regime on additional funding for councils and Covid funding administered by councils.	Increase in outcomes based procurement and focus on social value.
Business cases for new investments or for Government.	Significant investment in digital capabilities – channel shift, remote working, etc.
HR capacity and welfare, building health and safety checks.	

Redmond Review – Outcome of the Review

The independent review led by Sir Tony Redmond was published on 8th September 2020. The review sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019. The detailed outcome of the review has now been published. The review has made a series of recommendations which will impact upon Auditors and Local Authority's alike.

The Key Findings are summarised below:

- The establishment of a new regulator - the Office of Local Audit and Regulation. This will replace the FRC and PSAA

- Scope to increase fees - The current fee structure for local audit is to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements

- A move back to a September deadline - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

- The Accounts to be simplified - CIPFA/LASAAC will be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts

- There is a recognition of the role of authorities in improving governance and reporting.

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- The development of audited and reconciled accounts summaries to accompany the financial statements.

As the reviews by Redmond, John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

You can read the detailed report and recommendations using the link below:

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

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. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/