# Audit Progress Report and Sector Update

Bournemouth, Christchurch and Poole Council
Year ending 31 March 2021

**2 April 2021**

# Contents

# Introduction

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## This paper provides the Audit and 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; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and 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 April 2021

## Working with You

### Meetings

We will continue discussions with management regarding emerging developments and to ensure the audit process is smooth and effective. This includes the new approach to VFM, and the timing of audit deliverables.

### Working Arrangements

With the country still in lockdown we envisage having to continue to work completely remotely for some time. Working with the Council, we managed this well at the last audit and we will seek to be in regular contact with your finance team in respect of the logistics of these arrangements, recognising that staff, service provision and resident welfare during the pandemic will be your priorities.

Our planning work is underway and our interim audit is planned for April 2021. We are in discussions about this with the finance team to ensure we maximise the use of this time and ensure limited impact on your staff at this busy time.

## 2020/21

Nationally the delivery of 2019/20 financial statements audits presented a significant challenge. BCP Council's 2019/20 opinion was given on 12 March 2021, a number of opinions regionally and nationally have not yet being given. This is largely due to the impact of Covid19. This has had a significant impact on our ability to complete enough audit planning to issue a 2020/21 Audit Plan in time for the April Audit and Governance Committee.

Whilst we will formally present the Audit Plan at the Committee in later in the year,, we will look to issue the Plan to officers by the end of June 2021 after we have completed our value for money risk assessment.

Our interim audit taking place in April will focus on:

- Review of the Council's control environment;
- Updating our understanding of the Council's financial systems and business processes;
- Review of Internal Audit reports on core financial systems;
- Early substantive testing – payroll analytical review
- Review  of estimates to meet the enhanced documentation requirements of ISA540.

The Council has engaged a new valuer this year. We have yet to complete our initial planning work on the information supplied to the external valuer.

### Events

Our annual accounts workshop for Chief Accountants took place in February 2021 and your finance team attended. This took place remotely due to the current homeworking requirements and covered topical issues and technical areas pertinent to the 2020/21 statutory accounts.

## Value for Money

As communicated in our previous sector updates, 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. These changes are set out in more detail in the NAO's Auditor Guidance Note 03 which was published on 15 October 2020.

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.

We will complete our initial risk assessment in April 2021 and we will report any risks of significant weakness, in our Audit Plan.

# Audit logistics and team

**Planning and risk assessment**

**Audit and Governance Committee**
22 April 2021
**Progress Report**

**Interim audit April 2021**

**Audit and Governance Committee**
July2021
**Audit Plan**

**Year end audit**
September-December 2021

**Audit and Governance Committee**
November 2021
**Audit Findings Report/**

**Audit Opinion & Auditor's Annual Report**

### Peter Barber, Key Audit Partner

Peter is responsible for the overall delivery of the audit. He will meet regularly with senior management of the Council and will attend Audit and Governance Committee meetings.

### Sam Harding, Audit Manager

Sam oversees day to day planning and manages the work of the Audit Incharge and associates to ensure that the audit work is focussed on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.

### Becky Greaves, Audit Incharge

Becky is responsible for the on-site delivery of the audit work. He assigns activities across the team and ensures it is completed satisfactorily.

### Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

# Audit of Financial Statements

## Materiality

### The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the last financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.1.5m (PY £11.120m) for the Council, which equates to approximately 1.4% of your prior year gross expenditure. A similar percentage has been determined for the group financial statements at £11. 6m (PY £11.180m) We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £14,000 (PY £20,000) for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

### Matters we will report to the Audit  and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.  In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000 (PY £600,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

## Significant risks

We have yet to complete all our planning work so cannot confirm at this stage the significant risks that we will be auditing. However, the section below are likely areas that we will expect our work to focus on.

### Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is a low risk of material misstatement due to fraud relating to revenue recognition. We have determined that the risk of fraud arising from revenue recognition can be rebutted. This is because there is little incentive to manipulate revenue recognition, opportunities to manipulate revenue recognition are very limited and the culture and ethical framework of the Council means that all forms of fraud are seen as unacceptable.
- The risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of normal business as a significant risk.

### Other significant risks

- Valuation of land and buildings.
- Valuation of the pension fund net liability

### Other expected areas of focus

- Covid -19 – the on-going impact that this is having on the Council.

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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 Code introduced a revised approach to the audit of Value for Money. (VFM)

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

- A new set of key criteria, covering financial sustainability, governance 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 Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria.

### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

# Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit fees

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The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will 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.

Additionally, across all sectors and firms, the 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, in relation to the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Further detail on our proposed work and fees are set out below.

We are still in discussions with Public Sector Audit Appointments regarding fees for 2020/21 and will provide more detail in the Audit Plan. However, at this stage we have estimated the proposed fee for 2020/21 to be in the region of £200,500.

| | **Actual Fee 2019/20** | **Proposed fee 2020/21** |
|---|---|---|
| Council Audit | £210,000 | £200,500 |
| Teachers Pensions Certification | £5,000 | £5,000 |
| Housing Benefit Subsidy certification | £19,000 | £21,000 |
| Pooling Housing Capital Receipts | £10,000 | £5,000 |
| CFO Insights subscription | £10,000 | £10,000 |
| Total audit and non audit fees (excluding VAT) | £255,000 | £243,500 |

### Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit Deliverables

| 2020/21 Deliverables | Planned Date | Status |
|---|---|---|
| **Accounts Audit Plan**<br>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 2020-21 financial statements. This also includes the findings of our value for money initial risk assessment. | June 2021 | Not yet due |
| **Interim Audit Findings**<br>We will report to you the findings from our interim audit in our Audit Progress Report. | July 2021 | Not yet due |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the December Audit and Governance Committee. | December 2021 | Not yet due |
| **Auditors Report**<br>This is the opinion on your financial statements and annual governance statement. | December 2021 | Not yet due |
| **Auditor's Annual Report**<br>Under the new Code of Audit Practice this replaces the Annual Audit Letter and is the key output from local audit work on arrangements to secure VFM. | January 2022 | Not due yet |

# 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 and Governance 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 new approach to Value for Money

## The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The auditor's work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor's Annual Report. It is therefore not a VFM arrangements 'conclusion' or an 'opinion' in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place 'proper arrangements' for securing VFM. The arrangements that fall within the scope of 'proper arrangements' are set out in 'AGN 03 Auditors' work on VFM arrangements', which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

## Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

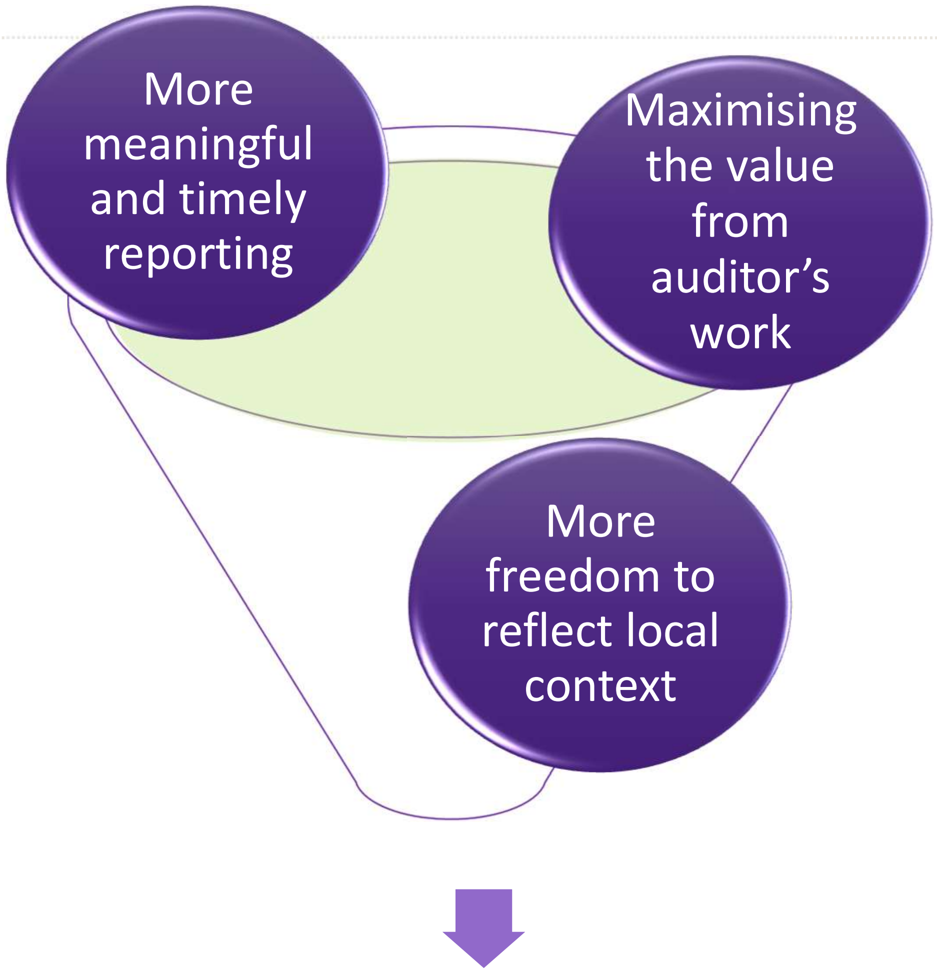
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

# The new approach to Value for Money

## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.




**VFM arrangements commentary and recommendations**

# The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

| Section of report | Content |
|---|---|
| Commentary on arrangements | An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. |
| Recommendations | Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement. |
| Progress in implementing recommendations | Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily. |
| Use of additional powers | Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report. |
| Opinion on the financial statements | The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. |

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

| Type of recommendation | Definition |
|---|---|
| Statutory recommendation | Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report. |
| Key recommendation | Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them |
| Improvement recommendation | Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved |

# Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

**Introduction**

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

**Additional information that will be required for our March 2021 audits**

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

**The Council's Information systems**

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

**Estimation uncertainty**

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

**How can you help**

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit, Governance and Standards Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

**Further information**

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

# Lessons from recent Public Interest Reports – Grant Thornton

2020 will be remembered as a tumultuous year in local government. The Covid-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

**1 Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.**

2 **Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.**

3 **Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.**

4 **Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.**

**The Public Interest Reports (PIRs) at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) were the first issued since 2016. All three are clear illustrations of some of the local government issues identified above. The audit reports are** comprehensive and wide-ranging and a lesson for all local authorities. There are some quotes that seem particularly apposite for all councils to consider. Local authorities have a variety of different governance models which range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other councils, it is less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

**1** The context of local government in a Covid-19 world

2 **Governance, scrutiny, and culture**

3 **Council leadership**

[Lessons from Public Interest Reports (grantthornton.co.uk)](https://www.grantthornton.co.uk)

# Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts,  to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:


Grant Thornton

Accounting for grants in local government financial statements

# Local government finance in the pandemic – National Audit Office

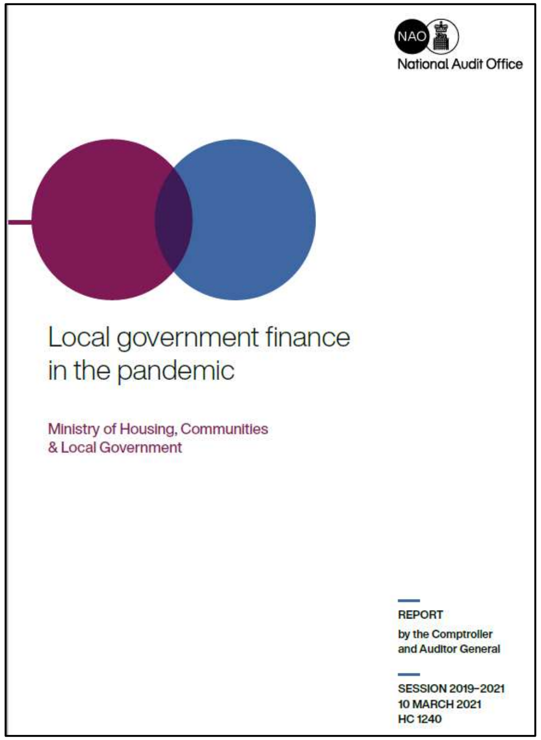
The National Audit Office (NAO) report, published in March, notes "The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities' finances, which in many cases were already under strain going into the pandemic."

The NAO report examines if the Department's approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes "Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves."

The NAO report found that "the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m."




The full report can be obtained from the NAO website:

Local government finance in the pandemic - National Audit Office (NAO) Report

# 2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report "Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies' audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year's timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance."

The news article can be found here:

News release: 2019/20 audited accounts – PSAA

# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

CIPFA The Chartered Institute of Public Finance & Accountancy

The Financial Resilience tool is available on the CIPFA website below:

https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0

# Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, "Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide "provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting."

However, The NAO observe "Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation's strategy and the risks it faces, how much taxpayers' money has been spent and on what, and what has been achieved as a result."

Further, the NAO note "The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation's strategy, plans and operational and financial performance."


The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/