

Audit Progress Report and Sector Update

Mid Devon District Council
Year ending 31 March 2020

17 November 2020



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Introduction



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This paper provides the Audit 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 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 November 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your draft financial statements in June 2020.

In January 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

In addition to the audit risks communicated to those charged with governance in our Audit Plan in January 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. On 16 April 2020 we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19.

We received your draft 2019/20 financial statements on the 9 June 2020, slightly later than the agreed timetable. We commenced our full post-statements audit ahead of receiving the full draft financial statements.

We presented our Audit Findings Report (AFR) to the Audit Committee on 11 August 2020. In this report we set out that our anticipated opinion was unqualified and include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings. This remains our proposed opinion on the financial statements.

Within our AFR we also set out the items that needed to be cleared prior to us issuing our report. There has been significant progress since we presented our AFR. The items that remain to be cleared are:

- receipt and review of the letters of assurance from the Devon County Pension Fund Auditor. As previously communicate we are expecting these to include a material uncertainty in relation to pension property assets;
- final review by Engagement Lead; and
- review of the final set of financial statements and subsequent events review.

We are also awaiting guidance from the NAO on the WGA submission. Whilst Mid Devon are below the threshold we are unable to conclude until the final guidance is issued. It is therefore likely that whilst we will be able to issue our audit opinion the certificate concluding the audit may be delayed.

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 to determine our approach can be seen in our Audit Plan.

In our AFR that we present to the Audit Committee on 11 August 2020 we set out that we anticipated issuing an except for VFM conclusion due to the Group Governance arrangements. There have been no developments since we presented this report that have changed this proposed conclusion.

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 ran until 2 September 2020. The NAO will now analyse all consultation responses received and consider what changes are required to the draft guidance. More detail can be seen on page 9 of this report as well as in appendix A.

Progress at November 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The planning of the certification work for the 2019/20 has been completed. We have also completed the initial discovery testing. This identified a number of areas where additional testing is required and this work is currently underway. It should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021 from 30 November 2020. We will report our findings to the Audit Committee in our Certification Letter in January 2021.

Meetings

We are in regular dialogue with Finance Officers and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. As we are coming to the closing stages of the audit we are working closely with officers to ensure there is no impact on achieving the reporting deadline.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will keep officers and members updated on upcoming events.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

Our work in the Local Government sector in 2018/19 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 all our audits. We have discussed the estimated impact on fees for 2019/20 for Mid Devon with the Deputy Chief Executive. These have been shared with PSAA who have approved these in principle subject to final sign off of the final fee variations following completion of the audit.

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

In addition, Covid 19 has clearly impacted on the time taken in managing and delivering the audit in a more remote working environment. This has clearly impacted our work and we will need to review the actual audit inputs required at the conclusion of the audit, to assess any fee implications arising from this.

In our experience, based on the indications from audits being undertaken to date, the issues highlighted above are increasing the time taken on audits by an average of 25%. We understand from discussions with the ICAEW that this is similar to other firms. We are mitigating this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is possible that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. Whilst it is too soon to estimate whether there will be any additional cost to the Council it is important to highlight this matter to you. We will discuss any additional costs with the Council's Deputy Chief Executive as we progress further towards the concluding stages of the audit. We hope the explanation above and the recent Redmond report (that indicates that, before the impact of Covid 19 is taken into account, audit fees are under-priced by 25 per cent) provides some context to any additional fees and the actions we are taking to mitigate them.

Audit Deliverables (updated – Covid-19 impact)

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2019/20. We have appended the updated fee letter seeking additional fees as a result of the increased regulatory focus facing all audit suppliers.</p>	April 2019	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements. This includes the findings of our value for money initial risk assessment.</p>	March 2020	Complete
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit in our Audit Progress Report.</p>	June 2020	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the August Audit Committee.</p>	July 2020	Presented at August committee in line with revised reporting timescales
<p>Auditors Report</p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	November 2020	We are awaiting information to complete our Audit. Details are set out on page 4 of this report.
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	January 2021	This has been deferred until the completion of the Audit.

Sector Update

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

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

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

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

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

Public Sector

Local
government

The Redmond Review

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

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

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

Key recommendations in the report include:

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

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

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

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

How you can respond to the Review

One of the recommendations was for local authorities to implement:

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

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

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

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

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

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

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

Value for Money - Key changes

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

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

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

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

Implications of the changes

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

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

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

The Code can be accessed here:

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

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

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

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

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

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

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

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

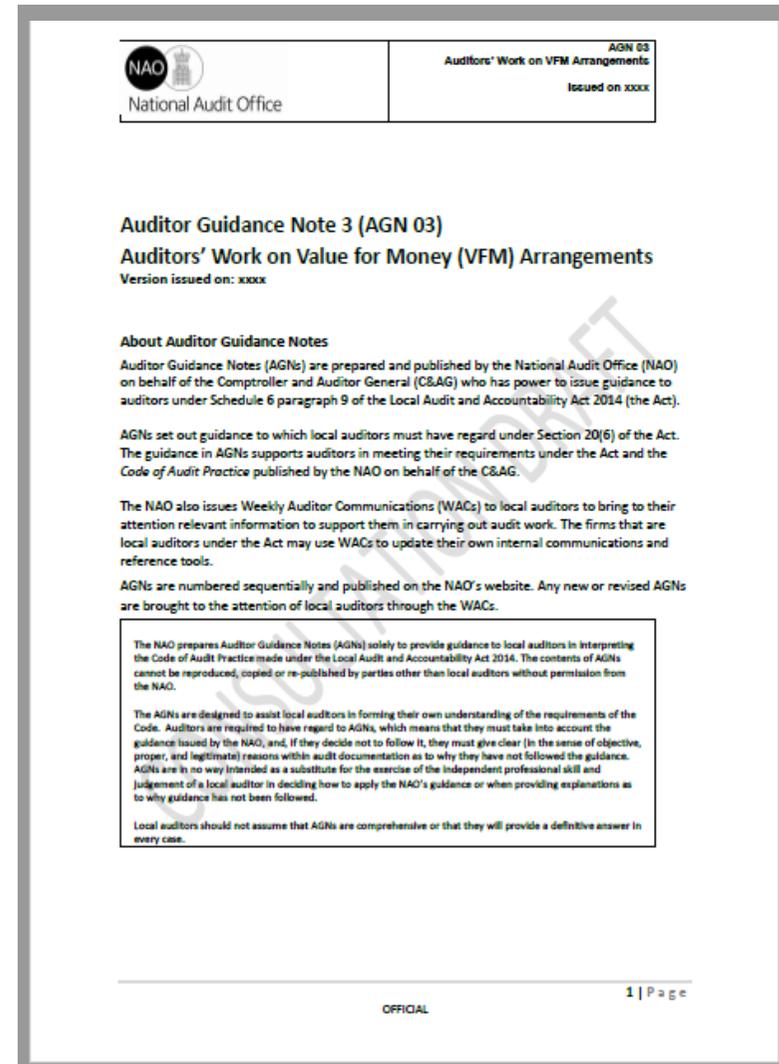
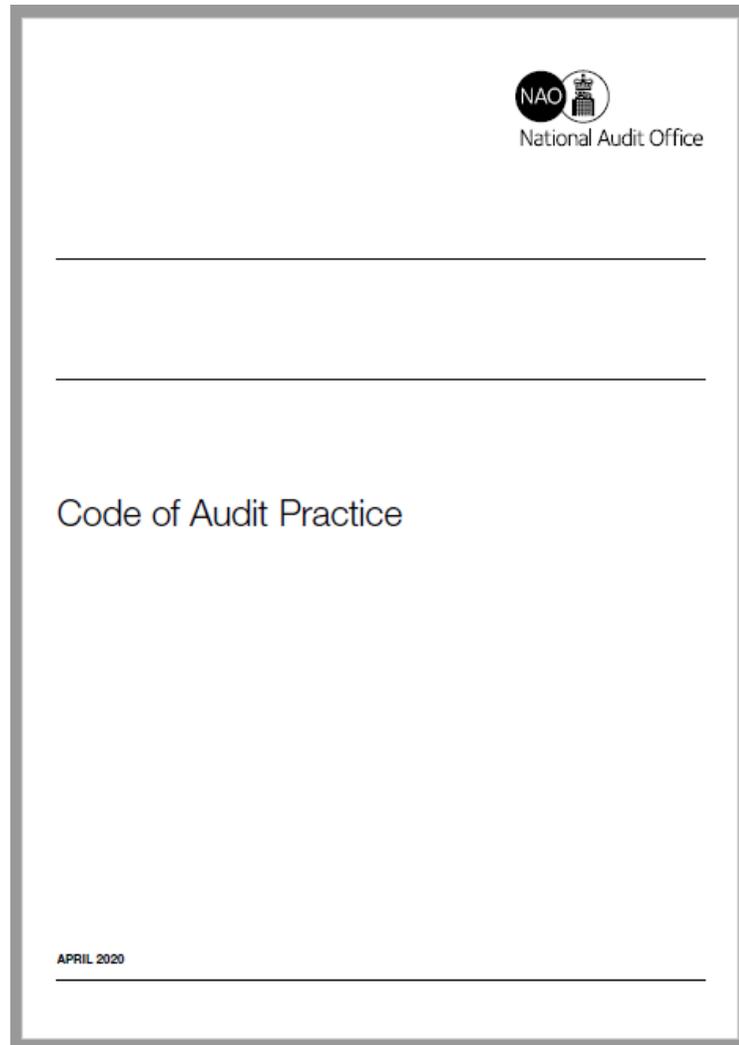
<https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf>



Appendix A

Auditor's work on VFM Arrangements

How have the NAO changed value for money work ?

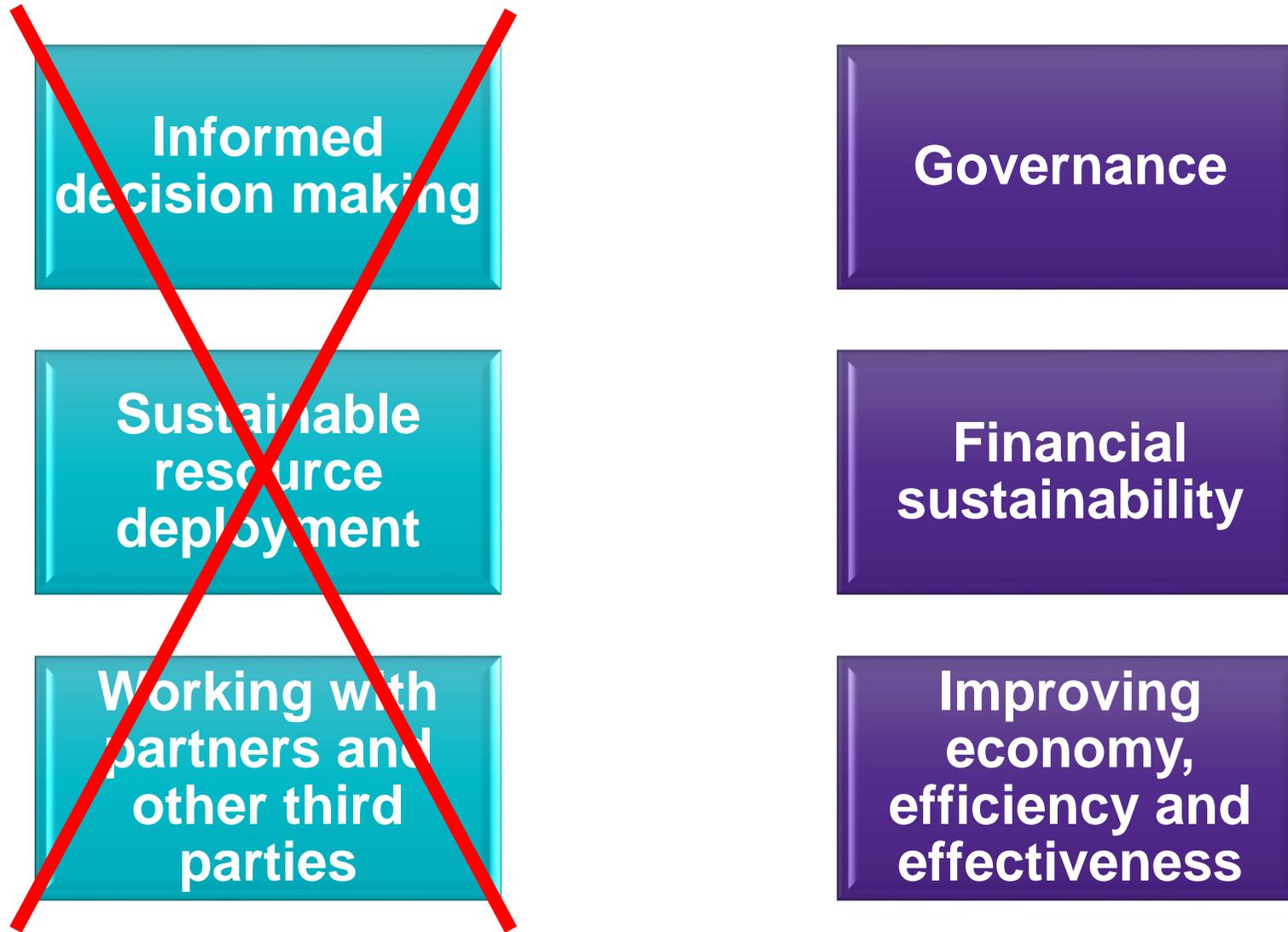


How is value for money work changing ?



VFM arrangements commentary and recommendations

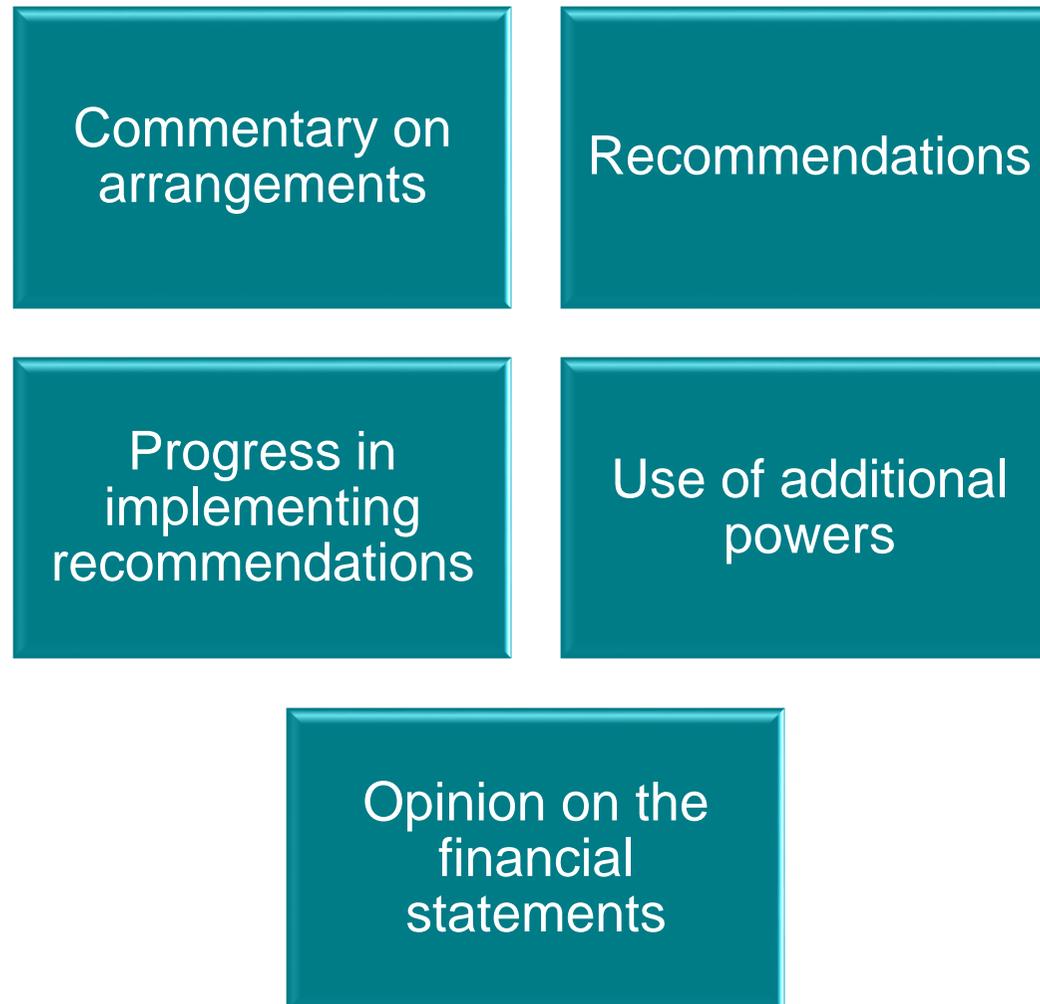
The three criteria have changed...



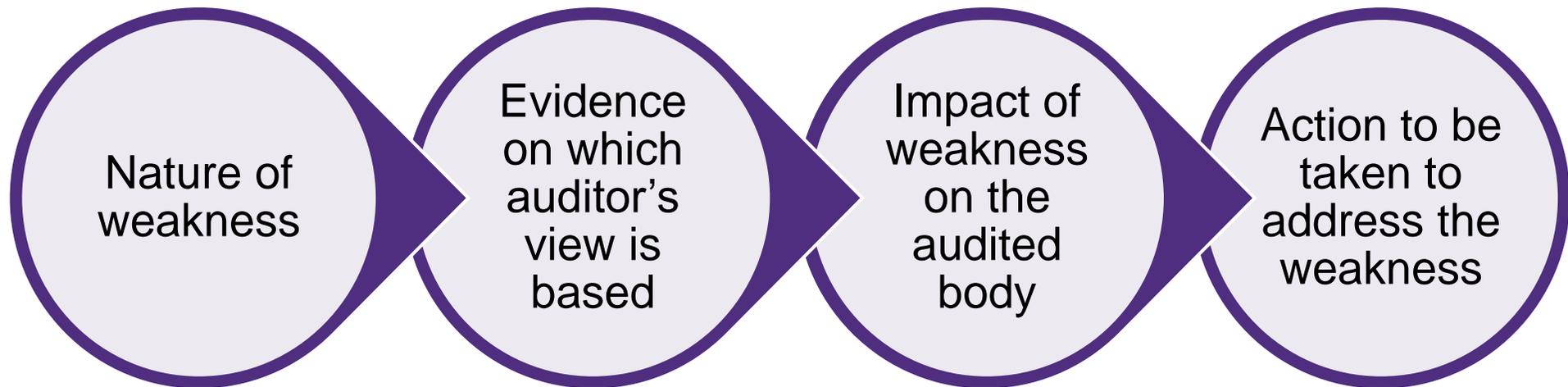
A key change in reporting...



So what is in an Auditor's Annual Report ?



Recommendations



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Q&A



