

Mid Devon District Council Audit Progress Report and Sector Update

Year ending 31 March 2022

10 November 2022



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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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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.

2021/22 Progress at November 2022

Opinion

Background

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

This was enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 was extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Nationally, we continue to face challenges in delivering our LG work. This is due to a number of factors impacting on the audit market generally. These have been set out in previous Audit update reports with the key factors being the increased level of work following FRC reviews, recruitment and retention of staff and the increased complexity of LG reporting. We have included more information on the current audit market development on page 10 of this report.

Mid Devon District Council

Our 2021/22 Audit Plan presented to Audit Committee in June 2022 set out our timetable for our opinion audit with a target completion date of the 30 November 2022.

We received the draft 2021/22 financial statements in accordance with the national timetable in late June 2022.

Our post-statements visit commenced in September 2022 in accordance with our initial timetable but due to wider resourcing challenges including turnover and sickness we have struggled to progress the audit as quickly as we would have liked. We have sought to bring in extra resource but still remain marginally behind our initial schedule.

In addition to the resourcing delays, there are a number of other issues that have resulted in the November 2022 target sign off date no longer being deliverable. Specifically:

- Property Plant and Equipment where we are awaiting information from the Council's valuer to support key assumption within this material estimate, and
- Receipt of the letter of assurance from the Devon County Pension Fund Auditor
- The group audit, where we are awaiting the conclusion of the company auditors work and final findings. Based on discussions with the company auditor (Simkins Edwards), it is likely that the Council will need to consider making adjustments to the Group financial statements. These are in relation to an increased write off of WIP and removal of a deferred tax asset. We have requested that the Council consider the impact of these findings on their current expected credit loss provision.

Our work to date has not identified any issues that would impact on our ability to issue an unqualified audit opinion. Our work to date has identified one area for improvement for the Council's consideration::

Selecting samples for our debtors and creditors testing has been made more difficult as the Council were unable to provide a list of amounts owed/due at the year end. As the populations are not cleansed the audit team have had to adjust our testing strategy to ensure we are not testing bought forward or contra balances. We recommend that going forward the Council endeavour to provide cleansed populations in these two areas.

Our focus remains on completion our work as quickly as practically possible. Following discussions with officers we are now working to conclude our work ahead of the Christmas break with the intention of bringing our Audit Findings Report to the January meeting of the Audit Committee.

Progress at November 2022 (cont.)

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September 2022 or, where this is not possible, issue an audit letter setting out the reasons for delay. This letter was issued to the Chair of the Audit Committee in September 2022.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements.

Whilst our VFM assessment has not yet commenced we anticipate issuing our Auditor’s Annual Report within the NAO timescales.

In our Audit Plan, we set out two risks of significant weakness in arrangements. These were in relation to financial sustainability and group governance.

When issuing our Audit Findings Report, to the January 2023 committee, we will provide an update on the progress of our work in these key areas.

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).

In line with 2020/21 the DWP have extended the deadline for this work for 2021/22 until 31st January 2023.

We are well progressed with this work. All initial testing has been completed by the Housing Benefit team, and extended testing is in progress. Our testing of this work will be undertaken in late November and December 2022. This work will be completed remotely.

There are currently no significant issues that we need to bring to members attention.

Meetings

We meet regularly with Finance Officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Where we have encountered changes to audit deliverables we have endeavoured to ensure the finance team are updated. We have continued to work with officers to revise planned completion dates to ensure meaningful reporting to members and to ensure audit quality is maintained.

We are aware that finance staff are working on budget setting at this time and we appreciate the effort of the team in dealing with our audit queries.

2021/22 deliverables

2021/22 Deliverables	Planned Date	Status
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements.</p>	June 2022	Complete
<p>Interim Audit Findings</p> <p>We will report key findings from our interim audit within our Progress Report.</p>	August 2022	Complete
<p>Audit Findings (ISA260) Report</p> <p>The Audit Findings Report will be reported In November 2022.</p>	November 2022	This has been deferred to January 2022
<p>Auditor's Annual Report (AAR)</p> <p>The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The final version of the AAR will be published in line with the timescales to be set out by the National Audit Office. The AAR must be published on your website in line with requirements. The NAO deadline is set as 3 months from the date of signing the audit opinion.</p>	November 2022	As set out in the letter issued on 27 th September 2022 (page 8 of this report). We have deferred the AAR until February 2023. We will aim to complete this for the March 2023 Audit Committee.
<p>Auditor's Report</p> <p>This will include our opinion on your financial statements and our other reporting requirements, as set out in 'The auditor's statutory responsibilities' section of this report.</p>	November 2022	This has been deferred to January 2022

2021/22 deliverables (continued)

2021/22 Audit-related Deliverables

Housing Benefit Subsidy – certification

This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.

Planned Date

January 2023

Status

Not yet due

Pooling of housing capital receipts - certification

This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.

January 2023

Not yet due

Audit letter in respect of delayed VFM work

Chair of Audit Committee
Mid Devon District Council
Phoenix House
Phoenix Lane
Tiverton
EX16 6PP

27 September 2022

Dear Chair of the Audit Committee

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Peter Barber
Director

Sector Update

Authorities 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

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

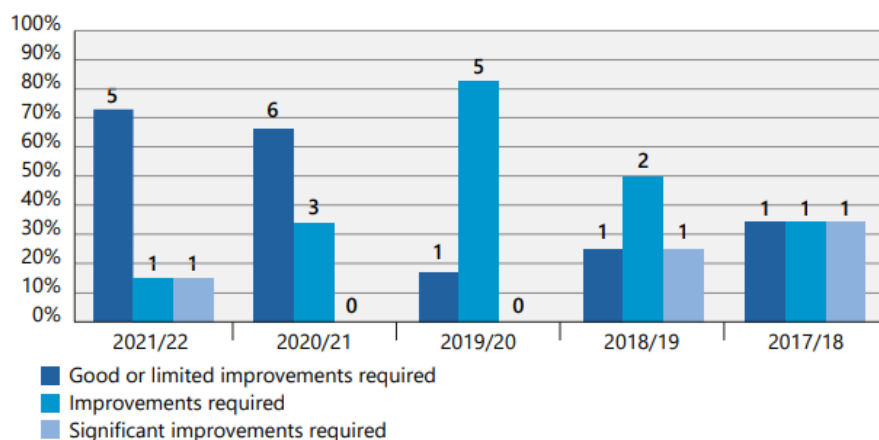
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



