Audit & Standards Committee

Date: Thursday, 5 November 2020
Time: 10.00 am
Venue: Microsoft Teams

Membership
John Bridgeman (Chair)
Councillor Parminder Singh Birdi
Councillor Neil Dirveiks
Councillor Bill Gifford
Councillor John Horner
Councillor David Reilly

Items on the agenda: -

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting and matters arising — 5 - 12

To confirm the minutes of the meeting held on 28 September 2020.

2. External Auditors' Progress Report and Sector Update 13 - 94

The report and appendices are attached.

3. Local Authority Financial Reporting and External Audit: Independent Review 95 - 212

The report, appendix and two background documents are attached.

4. Warwickshire County Council: Changes to Accounting Policies 213 - 222

The report is attached.

5. Update on Preparations for EU Transition 223 - 228

The report is attached.

6. Work Programme and Future Meeting Dates 229 - 230

To consider items for the Committee's Work Programme and the dates of future meetings to be held at Shire Hall, Warwick, or remotely on Microsoft Teams (dependent upon public health advice), at 10am as follows:

- 25 March 2021

7. Any Other Business

8. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

"That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972."

9. Internal Audit Progress Report 231 - 240

The report is attached.

10. Exempt Minutes of the meeting of the Audit and Standards Committee held on 28 September 2020 and matters arising 241 - 244

The minutes are attached.

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

To download papers for this meeting scan here with your camera

Disclaimers

Webcasting and permission to be filmed

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Disclosures of Pecuniary and Non-Pecuniary Interests

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These should be declared at the commencement of the meeting
The public reports referred to are available on the Warwickshire Web
https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1

Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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Audit & Standards Committee

Monday, 28 September 2020

Minutes

Attendance

Committee Members
John Bridgeman (Chair)
Councillor Parminder Singh Birdi
Councillor Bill Gifford
Councillor John Holland
Councillor John Horner
Councillor David Reilly

Officers
Barnaby Briggs, Assistant Chief Fire Officer
Paul Clarke, Internal Audit Manager, Delivery Lead
John Cole, Trainee Democratic Services Officer
Sarah Duxbury, Assistant Director – Governance and Policy
Andrew Felton, Assistant Director, Finance
Carl Hipkiss, Development and Analysis Team Manager
Isabelle Moorhouse, Trainee Democratic Services Officer
Chris Norton, Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk
Rob Powell, Strategic Director, Resources
Virginia Rennie, Strategy and Commissioning Manager (Strategic Finance)
Steve Smith, Assistant Director – Commissioning Support Unit

Others Present
Jim McLarnon, Engagement Manager – Grant Thornton
Grant Patterson, Engagement Lead – Grant Thornton

1. General

(1) Apologies

Apologies were received from Councillor Dirveiks, Councillor Holland was present as a substitute.

(2) Members’ Disclosures of Pecuniary and Non-Pecuniary Interests

There were none.

(3) Minutes of the previous meeting and matters arising

Resolved:

That the minutes of the meeting held on 20 July 2020 be approved as an accurate record.

Matters arising

In response to the Chair, Sarah Duxbury (Assistant Director, Governance and Policy) advised that the recruitment pack for appointment of a new independent member of the Committee had been finalised with the intention to advertise the vacancy in October 2020. The process was on track for an appointment to be made by the end of the calendar year.

The Chair expressed his thanks to members for their contributions in response to the Local Government Association (LGA) Member Code of Conduct consultation. He praised Jane Pollard (Legal Services Manager) for her efforts in coordinating the Authority's response.

Councillor Gifford referred to the emphasis placed on 'civility' within the LGA's Model Code of Conduct, stating that Warwickshire County Council compared well to other authorities; members deserved to take pride in the high standards of courtesy and civility observed by the Council.

2. Warwickshire County Council External Auditors Governance Report 2019/20

Grant Patterson (Grant Thornton) introduced the report, stating that audits had been undertaken remotely since July 2020. He advised that work had been substantially completed and, to date, no issues had been identified which would require a modification of audit opinion. Work was ongoing to examine the Council's accounts in respect of property, plant and equipment; this was not anticipated to significantly alter overall findings.

Grant Patterson stated that COVID-19 had resulted in significant disruption to property markets, prompting the Royal Institution of Chartered Surveyors to issue guidance to its members that disclosure of material uncertainty was likely to be required. This signified that less certainty had been expressed by valuers, but he stressed that it would not invalidate any existing valuations. He stated that Grant Thornton's report for both the Council and Pension Fund would be unqualified, however, it was proposed to include 'an emphasis of matter' to highlight the material uncertainty disclosures observed as a result of the pandemic; this would not require a modification or qualification of the audit opinion.

Grant Patterson drew attention to page 10 of the Draft Audit Findings Report which summarised the Dedicated Schools Grant, proposed McCloud remedy, and the Goodwin judgement. He stated that these were not material matters and no adjustment to the accounts was proposed. This was reflected in the draft Letter of Representation; the Committee's approval was being sought in respect of the Authority's judgement to qualify these findings as not material.

Grant Patterson stated that an unqualified opinion of the Financial Statement was proposed by the external auditor, alongside an unqualified value for money conclusion. Examination of the Medium Term Financial Strategy (MTFS) demonstrated that the Authority's arrangements were appropriate; he advised that WCC had achieved around 85% of the savings required over the period of the last organisational plan. This compared favourably to other local authorities. He highlighted the challenges ahead, including the proposed increased use of reserves and the difficult choices the organisation faced to meet its updated savings targets.

Grant Patterson stated that the financial strategy adopted by the Authority placed it in a sound position; it remained a going concern.

The members of the Committee praised the quality of the report. Councillor Gifford stated that, given the circumstances, the outlook was promising. Councillor Singh Birdi commented that prudent spending had facilitated a good outcome for the organisation; he advocated caution given the uncertainties ahead.

In response to the Chair, the members of the Committee indicated that they were satisfied that the Letter of Representation be signed on behalf of the Council.

Resolved:

That the Committee:

1. Endorses the Audit Findings Report of the External Auditors for Warwickshire County Council;

2. Approves, subject to any changes which may be necessary to the final draft, the wording of the Letter of Representation.

3. External Auditors Governance Report 2019/20 - Warwickshire Pension Fund

Jim McLarnon (Grant Thornton) introduced the report, stating that its themes were consistent with those of the preceding report. Similar discussions had taken place to determine matters which were not considered material (Dedicated Schools Grant, McCloud, and Goodwin). He advised that the anticipated report was unmodified apart from the insertion of an ‘emphasis of matter’ paragraph relating to level two investments in pooled property funds where the investment manager had reported material valuation uncertainty.

Councillor Gifford stated that, although the depreciation of property values was concerning, the Authority had adequate cashflow to avoid the sale of assets in unfavourable conditions.

The Committee indicated that it was satisfied to commend the Letter of Representation for approval.

Resolved:

That the Committee:

1. Endorses the Audit Findings Report of the External Auditors for Warwickshire County Council;

2. Approves, subject to any changes which may be necessary to the final draft, the wording of the Letter of Representation.

4. Warwickshire County Council Statement of Accounts 2019/20

Andrew Felton (Assistant Director, Finance) introduced the Statement of Accounts, stating that, in ordinary circumstances, a significant underspend within a financial year would be viewed negatively, however, in the era of coronavirus it had proved to be advantageous. The underspend had helped to maintain healthy reserves, improved cashflow and positioned the Authority well to respond to the challenges posed by the impact of the pandemic and the departure of the UK from the European Union.

In response to Councillor Holland, Virginia Rennie (Strategy and Commissioning Manager, Strategic Finance) advised that, in recognition of the impact of coronavirus, central government had extended the statutory deadlines for the publication of accounts; WCC was on track to meet the revised deadlines comfortably.

Attention was given to the draft ‘narrative’ Statement of Accounts document which was orientated to be accessible to members of the public with images and statistics.

The Chair suggested that the Statement be revised so that it was clear from the introduction that the reader was being addressed by Rob Powell (Strategic Director, Resources) rather than authorship of the document being stated on the final page only.

In response to Councillor Horner, Virginia Rennie advised that the ‘Revenue Spend by Service’ figures did not include central overhead costs (such as Human Resources, for example). Andrew Felton stated that figures showing central overhead costs apportioned to service areas were available.

The Chair drew attention to page 10 of the Statement which advised that 246,910 calls had been answered by Customer Services. He suggested that some extrapolation of the proportion of complaints resolved within a measurable timescale would provide a more insightful infographic.

In response to Councillor Horner, Rob Powell stated that the 80.7% employment rate cited on page 10 of the Statement (‘Our Performance in 2019/20’) could require additional context. He advised that input would be sought from Economic Development to clarify within the text how this figure had been determined.

The Chair highlighted the lower rates of educational achievement in Nuneaton referred to on page 14 of the Statement. He asked if there was scope to develop the commentary relating to the Nuneaton Education Strategy. Rob Powell advised that this represented an ambitious strategy for the organisation and that attention would be given to the prospect of exploring the issue in more detail in the final, published version.

Councillor Horner highlighted the sections of the Statement which addressed underspending against budgets in specific service areas. He suggested that an explanation of the rationale for reduced spending in these areas would benefit the readers’ understanding.

Rob Powell advised that budgets were determined on the basis of projected demand. Regarding the significant underspend recorded for Environment Services, he explained that funds had been allocated in anticipation of a harsher winter; milder conditions had resulted in a saving. He supported the ethos to avoid unnecessary spending and highlighted the attention which had been given to ‘right-sizing’. Services were not encouraged to spend to budgets.

The Chair commented that in certain areas, such as care for the environment or child protection, there was a likely expectation amongst members of the public that budgetary allocations would be fully utilised. Rob Powell stated that Children’s Services was an area which had consistently made use of its full allocation.

In response to Councillor Horner, Rob Powell stated that there was scope to provide an explanation of the impact of COVID-19 on budgetary spending within the narrative Statement.

Resolved:

That the Committee notes the Statement of Accounts 2019/20 and recommends it to Council for approval.

5. Warwickshire Pension Fund Statement of Accounts 2019/20

Andrew Felton (Assistant Director, Finance) introduced the item, stating that the Pension Fund was in a good position leading into the end of the financial year. He advised that the Pension Fund was a long-term investment consideration, managed over a 19-year period. As a result, short-term impacts, such as coronavirus, could be effectively controlled. He stated that the pandemic had brought about an initial drop to 2016 valuation levels (approximately 82%), however by the end of the first quarter, levels had recovered to around 86%. Concerns remained in respect of the prospect of a second wave of the virus.

The Chair drew attention to the Executive Summary of the report which provided details of the net assets of the scheme alongside membership details. He commented that it was equally important for details of liabilities and deficit to be stated.

Councillor Gifford stated that the value of the deficit could potentially have a serious effect, leading to the Authority being required to raise its contributions to the scheme.

The Chair observed that, in periods of uncertainty, government reforms to the prescribed schedule for repair of deficits could not be ruled out; the prospect of addressing the deficit within a more compressed period could pose significant financial challenges.

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) stated that the Authority’s assumptions in respect of the size of the deficit tended to be prudent estimates.

Resolved:

That the Committee notes the 2019/20 Pension Fund Statement of Accounts and recommends it to Council for approval.

6. Annual Governance Statement 2019-20

Andrew Felton (Assistant Director, Finance) introduced the item. He stated that the Annual Governance Statement (AGS) enabled an examination of governance arrangements within the organisation to ensure that they have been fit for purpose during the period of the accounts. An examination of emerging risks had also been undertaken, including the impact of coronavirus. He stated that the external auditor was satisfied that systems had not been compromised at any stage of the Authority's response to the pandemic.

The Chair observed that uncertainty relating to Brexit and the potential consequences of future government policy changes had been included within the AGS.

In response to the Chair, Virginia Rennie (Strategy and Commissioning Manager, Strategic Finance) advised that a 'Trade and EU Matters' Group was in place, chaired by the Strategic Director for Communities and attended by key personnel across the organisation (including representation from Economic Development, Human Resources, Legal Services, Adult Social Care, Communications, Finance, Welfare Support and Trading Standards). The Group reported to Cabinet via Corporate Board.

In response to the Chair, Councillor Gifford indicated that he did not feel that enough attention had been given to the potential impact of Brexit, including a no deal scenario.

Councillor Singh Birdi indicated that he was reasonably content with the provisions in place to secure the Warwickshire economy following the end of the transition period.

Councillor Horner indicated that he was satisfied that the Council was taking the necessary steps.

Councillor Holland suggested that the response of the Council was dependent upon the eventual resolution to international negotiations.

The Chair commented that contingency planning should be prioritised by the organisation, stating that, in instances where national arrangements had failed to cover all eventualities, there would be an expectation for the Authority to act. He cited animal welfare, movement of livestock and immigration as potential areas of concern. He stated that the outlook was clouded by a high degree of uncertainty. The Committee supported the suggestion of a report being presented to the next meeting on the Authority's preparedness for an EU exit.

The Chair commented that the AGS had not referred to the potential implications of the HS2 scheme; Andrew Felton agreed to assess the outlook for inclusion of this matter.

Resolved:

That the Committee endorses the Annual Governance Statement 2019/20 prior to submission to Council for approval.

7. Governance of Change Programme

Steve Smith (Assistant Director, Commissioning Support Unit) introduced the report, stating that, as the Authority moved from the Change Programme to the Change Portfolio, it had been necessary to ensure that appropriate governance arrangements were in place. This was especially relevant in recognition of coronavirus and the measures introduced by the COVID-19 Recovery Plan.

In response to Councillor Gifford, Steve Smith advised that the Gateway Group was chaired by Andrew Felton (Assistant Director, Finance) and attended by senior personnel across the organisation. The purpose of the Group was to assess emerging proposals and to make a recommendation to Corporate Board. He stated that the Gateway Group was not a decision-making body; its recommendations would be progressed to Cabinet or Council as necessary. The terms of reference for the Group would be circulated to the members of the Committee to provide clarity.

Resolved:

That the Committee notes and takes assurance on the arrangements for governance of the Change Portfolio.

8. Work Programme and Future Meeting Dates

The Committee noted the Work Programme and future meeting dates.

The Chair requested that a report summarising the Authority's response to Brexit be provided at the meeting of the Committee on 5 November 2020.

Sarah Duxbury (Assistant Director, Governance and Policy) advised that consideration of the Local Government Association's Member Code of Conduct consultation would be retained on the Committee's work programme, however, it would likely be too early for details of the outcome of the consultation to be reported to the 5 November 2020 meeting and would be brought to a subsequent meeting.

9. Any Other Business

In response to Councillor Holland's suggestion of a special meeting of the Audit and Standards Committee to consider the implications of Brexit negotiations for Warwickshire, Rob Powell (Strategic Director, Resources) advised that many of the relevant issues fell within the ambit of the Communities OSC.

The Chair requested that the report to the Committee in November 2020 provide assurance in respect of WCC's exposure to unforeseen financial costs resulting from the departure of the UK from the EU; and that these risks would be taken into consideration and kept under review.

10. Reports Containing Confidential or Exempt Information

Resolved:

That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

11. Internal Audit Interim Progress Report

The Committee received a confidential briefing.

12. Exempt Minutes of the meeting of the Audit and Standards Committee held on 20 July 2020 and matters arising

It was agreed that the exempt minutes be signed by the Chair as a true record.

The meeting rose at 11:57

……………………………
Chair

Audit and Standards Committee

5 November 2020

External Auditors' Progress Report and Sector Update

Recommendation

The Audit and Standards Committee is asked to:

a) Consider and make any comments on the External Auditors' Progress Report and Sector Update, attached at Appendix A; and

b) Review and note the updated Audit Findings report for the County Council and the Warwickshire Pension Fund, attached at Appendices B and C.

1. Purpose of the Report

1.1. The purpose of this report is for our external auditors to provide a report to inform the Committee of their progress in delivering their responsibilities as our external auditors. The paper also includes a summary of emerging national issues and developments.

1.2. The Audit Progress Report and Sector Update report prepared by the auditors is attached at **Appendix A**.

1.3. As the Committee will be aware, when the Audit Findings report for the County Council and the Warwickshire Pension Fund were considered at your meeting on 28 September 2020 there were elements of work that were yet to be completed. This has now been done and the updated Audit Findings reports are attached at **Appendices B (for Warwickshire County Council) and C (for Warwickshire Pension Fund)**. The following sections highlight the updates for Members and the external auditors will be at the meeting to present these changes to you.

1.4. In considering these it is worth noting, for the Committee, that the final unqualified Audit Opinions for both the County Council and Warwickshire

Pension Fund accounts. Following receipt of these Audit Opinions the 2019/20 audited accounts of both bodies have now been published and can be found on the Council's website.

2. Warwickshire County Council Updated Audit Findings Report

2.1. The updated Audit Findings report for the County Council can be found attached at Appendix B. Overall there are no fundamental differences in the conclusions to make the Committee aware of.

2.2. The elements that have changed are:

- Page 3 now includes the conclusion on the emphasis of matter on pension fund pooled property assets and removes references to previously unfinished work;
- Page 6 now includes reference to the emphasis of matter on pension fund pooled property assets under the section on Covid risk;
- Page 22 notes the disclosure changes we made to the final version of the accounts in respect of a post balance sheet event disclosure of the financial risks to the Authority as a result of Covid-19;
- The Audit Opinion and management letter of representation appendix have been updated to reflect the final versions issued;

3. Warwickshire Pension Fund Updated Audit Findings Report

3.1. The updated Audit Findings report for the Warwickshire Pension Fund can be found attached at Appendix C. Overall there are no fundamental differences in the conclusions to make the Committee aware of.

3.2. The elements that have changed are:

- Page 3 removes references to previously unfinished work;
- Page 7 updates the note on the differences in values in external confirmations from both investment managers and the custodian, and the information available when management are estimating the values for the accounts;
- Page 14 includes reference to more safeguards in response to non-audit services; and
- Page 16 includes a reconciliation of the audit fee to the accounts.

4. Financial Implications

4.1. There are no direct financial implications for the County Council or the Warwickshire Pension Fund as a result of the issues raised in the report.

5. Environmental Implications

5.1. There are no environmental implications arising from this report.

6. Background Papers

6.1. None

	Name	**Contact Information**
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Strategic Director for Resources	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

Elected Members have not been consulted in the preparation of this report.

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Audit Progress Report and Sector Update

Warwickshire County Council and Warwickshire Pension Fund
Year ending 31 March 2020

October 2020

Contents

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Introduction

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This paper provides the Audit & Standards 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 & Standards 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.

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Progress at October 2020

2019/20 Financial Statements Audit

Following on from the meeting of the Audit & Standards Committee on 28 September 2020, we have now completed our audit of the 2019/20 financial statements of both the County Council and the Pension Fund.

The auditor's report for both entities was unqualified but included emphasis of matter paragraphs in relation to material valuation uncertainties arising due to Covid-19. The auditor's report's were signed on 27 October 2020.

As discussed at the previous meeting of the Audit & Standards Committee through our audit findings reports, work in key areas was ongoing and therefore we draw members attention to our final audit findings reports included as appendices. There have been no fundamental changes in our conclusions drawn or the overall reported performance or position of the County Council and Pension Fund. The changes made to our reports have been highlighted in the covering papers.

2020/21 Financial Statements Audit

Following completion of the current year audit, we will shortly commence our planning and interim work for the 2020/21 financial statements audit, with a resource plan currently being finalised which we will communicate to management in due course.

Our interim fieldwork is expected to include:

- Review and update of the Council and Pension Fund's control environment and walkthrough testing
- Analytical procedures and review of the minutes of relevant committee meetings to identify audit risks
- Discussions with management and others such as Internal Audit and the Monitoring Officer; and
- Early substantive testing of key areas including all revenue, operating expenditure, payroll costs and capital

We expect to issue our audit plan summarising our approach to the significant audit risks in February 2021. Due to the unprecedented circumstances presented by the COVID-19 pandemic, we will be reviewing our establishment of significant risks to ensure these are appropriate.

Value for Money

As communicated in our previous sector update, On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice (see page 16) 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 detailed 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.

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Progress at October 2020 (Continued)

Other areas

Certification of claims and returns

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 underway and is due to be completed in advance of the 30 November deadline.

Meetings

We met with Finance Officers in September as part of our quarterly liaison meetings and discussed the closedown of the 2019/20 audit.

We will continue to be in discussions with finance staff regarding emerging developments such as changes in accounting policies and to ensure the audit process is smooth and effective.

Events

Our annual financial reporting workshop for officers will be expected to take place early in the new year and the practice are currently reviewing the format of this due to remote working arrangements. This will cover topical issues and technical areas pertinent to the 2020/21 statutory accounts. Invitations to the workshop will be sent to key members of your finance team in due course.

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

Over the past few months we have either been in correspondence or discussion over the increased regulatory focus on audit, the corresponding impact of 'raising the bar' and, more recently, the pandemic. With regard to the latter, we have written out to all of our local government clients to provide some early thoughts on the impact of Covid-19 on our audit inputs and audit fees.

Clearly it has, and continues to be, a challenging situation for clients and our teams. Our focus as a firm is not to put anyone at risk within both our client's and our own teams, while continuing to progress our audits.

Some of the key areas where the pandemic has impacted upon our audit of your financial statements include:

- Remote working and work taking longer to complete
- The need to undertake and demonstrate greater challenge of management's assumptions and estimates due to increased uncertainty
- The need to revisit financial resilience assessments and our work on going concern and value for money (financial sustainability)

We have been in discussions with PSAA over the last few months and note that similar issues are being experienced in the commercial sector with commercial audit deadlines being extended by 4 months. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice sets out the expectations of the FRC.

In our experience the time taken on audits has increased 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, however, it is probable that this will not be sufficient to cover the full additional cost.

We acknowledge that both the Council's and the Pension Fund's finances are constrained and we will seek to minimise these costs as best we can. We will be better placed to discuss any potential additional costs with management when we have completed our audit work and are able to consider the impact of Covid-19 and any additional work we have had to carry out but our current estimate is that this would lead to indicative fee variations of around 15%.

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Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit & Standards Committee setting out our proposed approach in order to give an opinion on the Council and Pension Fund's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	July 2020	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	July 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the Audit & Standards Committee.	September 2020	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	October 2020	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	November 2020	Not yet due

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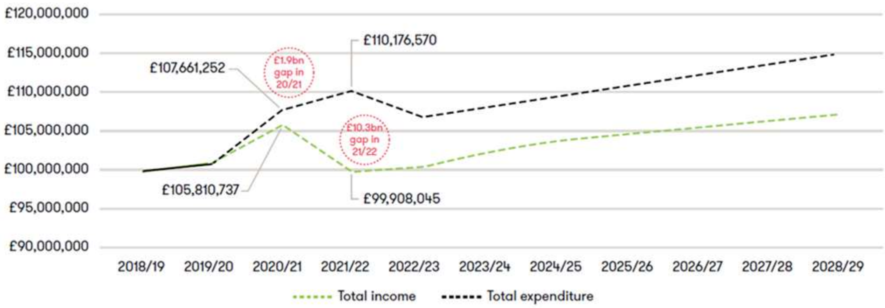
Covid-19 update – Grant Thornton

Where are we now?

Over seven 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 Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Financial Foresight (a Grant Thornton future look analytics platform building on our CFO Insights and Place Analytics data) 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.

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Covid-19 update (continued)

Lessons Learned (Cont'd)

Many councils have recognized 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.

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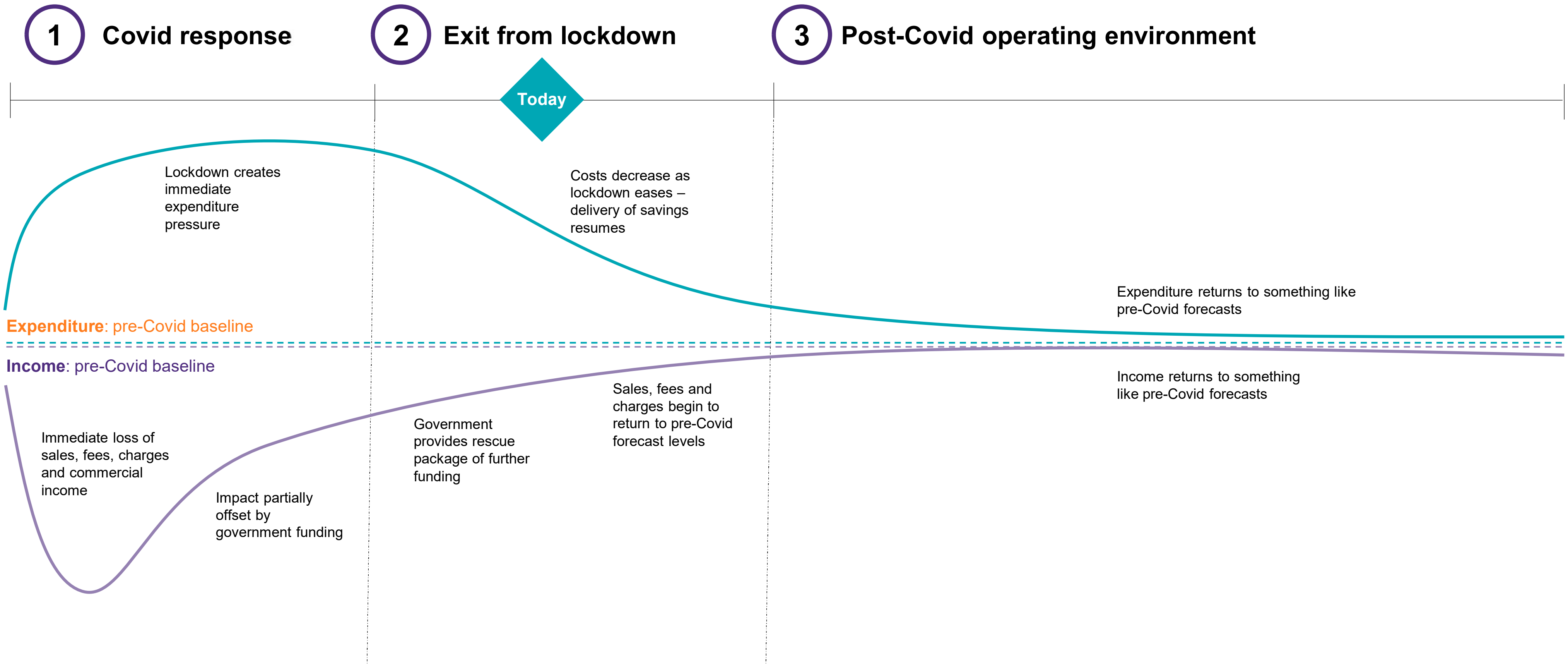
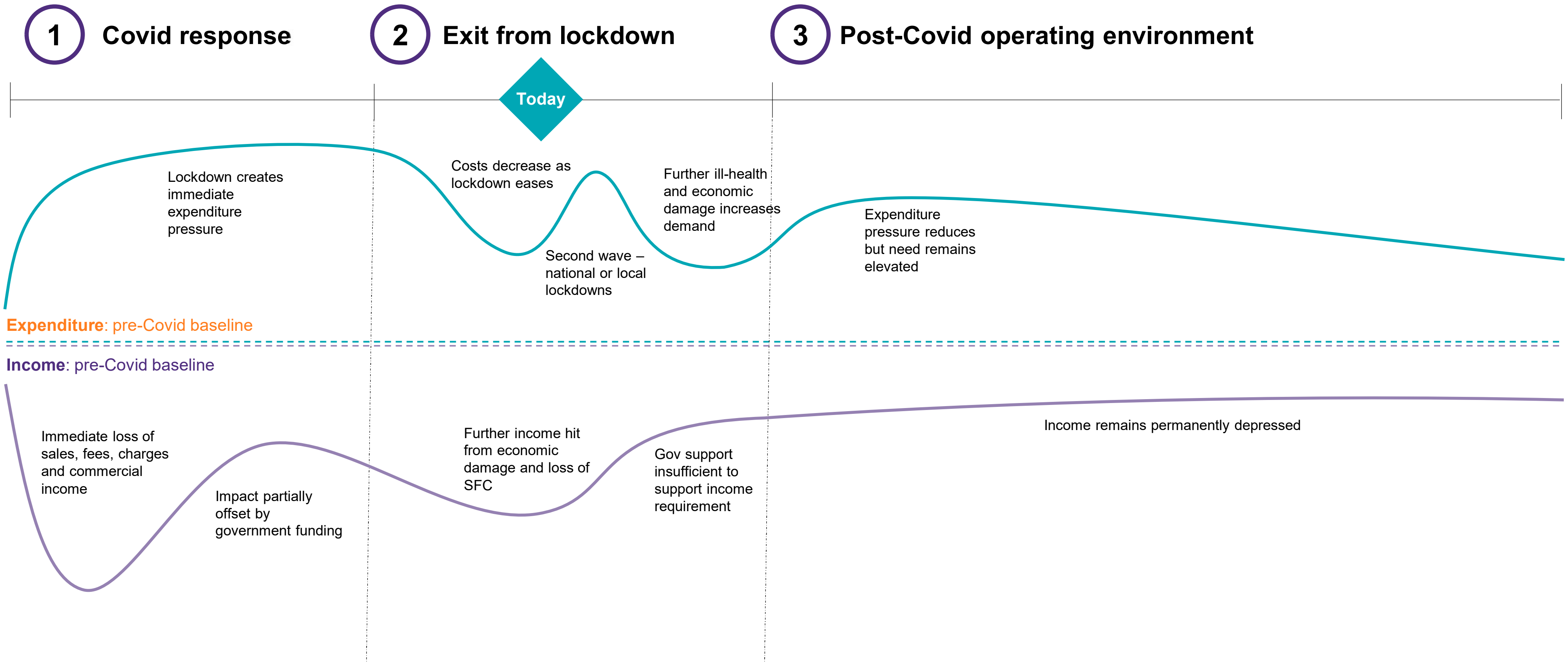
Example scenarios

Scenario 1 – swift return to normality



Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



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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

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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

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Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that "aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19."

The NAO report notes "Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for."

The NAO comment "This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

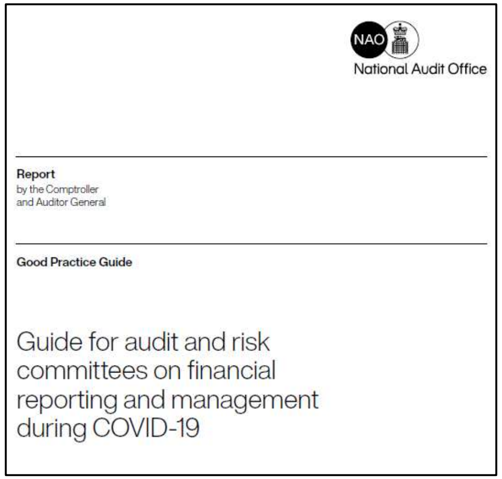
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period."

The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/


NAO National Audit Office

Report
by the Comptroller and Auditor General

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

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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

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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

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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

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CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

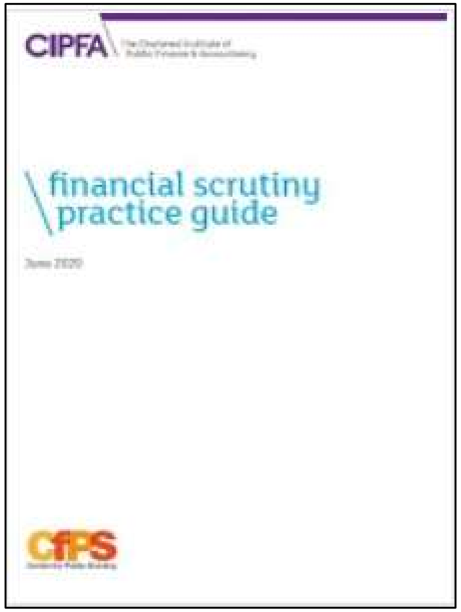
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

Local government reorganisation

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

The report identifies considerations relating to:

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

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

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

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

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

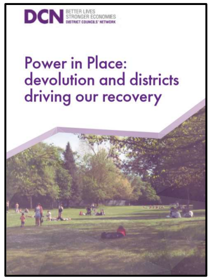
The District Councils' Network (DCN) report ahead of the publication of the government's 'devolution and local recovery' white paper.

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

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Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – "Building for renewal: kickstarting the C19 housing recovery".

Paul asked "So how do we address "the housing crisis" in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

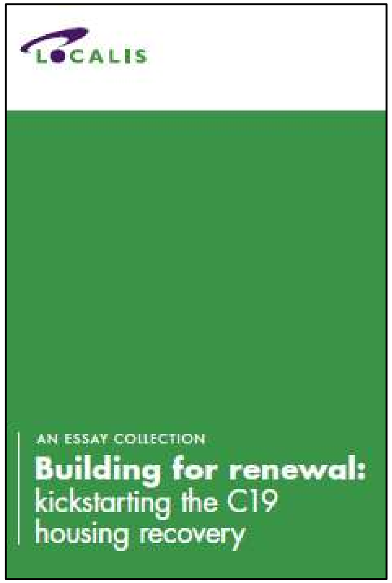
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded "Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need."



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

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Grant Thornton

The Audit Findings for Warwickshire County Council

Year ended 31 March 2020

27 October 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Warwickshire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. As a key body in the frontline response to the pandemic, the Council have worked closely with key partners to provide public health advice, support care providers, establish shielding hubs, provide Personal Protective Equipment (PPE), support education and school planning and reassign staff to areas of need. The Council has now established their formal recovery plan as the organisation make strides towards the next phase of the recovery and reorganisation from the pandemic. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 April 2020 and presented this to the Audit & Standards Committee on 20 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information. The draft financial statements were published and provided to the audit team on 26 June 2020 and the audit has been conducted on an almost entirely remote basis, with members of the Council finance team making a limited number of visits to County Hall where necessary. Fortunately, both the audit team and Council finance team have avoided any significant challenges through staff illness and lack of availability.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work has been completed remotely during July and August and continues into September . Our findings are summarised on pages 5 to 16. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement reported in the draft financial statements. Other audit adjustments are detailed in Appendix A. Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix C or material changes to the financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the Council's property, plant and equipment (land and buildings) valuation material uncertainty disclosures as a result of Covid-19. We have also included an Emphasis of Matter paragraph in relation to the Council's share of pooled property fund assets in the Warwickshire Pension Fund, which the investment funds' independent valuers have also reported on the basis of material uncertainty about the valuations as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Council's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

Headlines (continued)

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Warwickshire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 17 to 20.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Whole of Government Accounts review and an open objection.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 20 July 2020, to reflect our response to the Covid-19 pandemic. This included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption and narrative disclosure as well as considering this as a potential value for money risk.

Conclusion

We have completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion, as detailed in Appendix C.

Our approach to materiality

The concept of 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.

We detail in the table below our determination of materiality for Warwickshire County Council.

	Council Amount (£)	Factors considered
Materiality for the financial statements	£13.941m	We determined materiality for the audit of the Council's financial statements as a whole to be £15m in our audit plan which equated to approximately 1.5% of the Council's 2018-19 gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. As a Firm we cap materiality at 1.5% to reflect the risk associated with a large and complex authority such as Warwickshire County Council, and regulatory expectation of audit firms. The value was therefore revised down on receipt of the draft financial statements as gross operating expenses reduced in 2019-20.
Performance materiality	£10.456m	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	£697k	Triviality is the threshold at which we will communicate misstatements to the Audit & Standards Committee.
Materiality for Senior Officer Remuneration	£25k	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 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 expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1.	We worked 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 assessed the implications for our materiality calculations We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. We have: • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluated management's assumptions that underpin the revised MTFS and the impact on management's going concern assessment In their report, the Council's external valuer confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. More detail is provided on pages 7 and 11. Similarly, two of the Pension Fund's investment managers, Threadneedle and Schroders, have highlighted valuation material uncertainty disclosures associated with pooled property funds as a result of Covid-19. The Council has updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events. We will keep this under review up to the point our audit opinion is issued.
The revenue cycle includes fraudulent transactions (rebutted) 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 ISA240 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, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Warwickshire County Council, mean that all forms of fraud are seen as unacceptable We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

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Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces 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, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Valuation of land and buildings (Rolling revaluation) Following a full revaluation of its asset base in 2018/19 the Authority has now moved to revaluing its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£607m in the Authority's balance sheet at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. As noted on page 6 we are proposing to include an Emphasis of Matter – 'effects of Covid-19 on the valuation of land and buildings' within our Independent auditor's report (Appendix C). This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter. See page 11 for further details of our audit procedures in relation to the key estimate.

Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement. 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 Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated 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; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • undertaken 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; and • sought to obtain assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in respect of the valuation of the pension fund net liability, see page 12 for further details of our audit procedures in relation to the key estimate. We also set out on page 10 additional matters which have arisen during the audit and been discussed with management.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. We have: • Evaluated the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assessed the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings As part of our initial review of the financial statements, it was noted that no reference had been made to IFRS 16 and management responded to confirm that this was in accordance with paragraph 101 of the CIPFA Bulletin 05. In discussion with management it was agreed that whilst the Bulletin indicated no specific disclosures were required in order to aid readers understanding of the position on the adoption of IFRS 16 a disclosure note would be added. We have therefore concluded that disclosures included in the financial statements are appropriate.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Dedicated Schools Grant (DSG) The Council had a cumulative overspend of £2.9m as 31 March 2020, due to insufficient government funding, which is to be carried forward as a call against the schools budget in future years. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”	We have agreed Note 28 of the financial statements to supporting working papers on DSG grant income and schools expenditure. We have also reviewed the disclosure to ensure the Council has explained the funding position and the impact of any deficit balance carried forward. Where overspends arise against Dedicated Schools Grant and are to be carried forward as a call against the schools budget in future years, these should form part of the un-earmarked general fund.	The deficit balance has been disclosed as a negative earmarked reserve in Note 7 and is included within the net £170.1m balance in the MIRS. Although this is not in line with our view that this should form part of the unearmarked general fund balance, as the amount is immaterial we are satisfied that this does not impair a users understanding of the financial statements. The Council also has a DSG offset fund of £12.3m and has adequately disclosed the provisions of the new regulations in Note 28 including plans to recover the deficit in future years. We are therefore satisfied that there is no significant impact upon the Council's financial sustainability at this time.
McCloud In July 2020, The Ministry of Housing, Communities & Local Government (MHCLG) published its consultation on reforms to public sector pension schemes, this included the proposed remedy to address the discrimination caused by previous protections offered for those closer to retirement age.	We have discussed the potential impact of the McCloud remedy with management in consultation with management’s expert, Hymans Robertson LLP. An allowance for McCloud has already been included in the IAS 19 valuation as at 31 March 2020 and management have demonstrated that when compared to the potential restitution put forward in the consultation, the difference would be immaterial at below £4.8m. Management have proposed therefore that no adjustment is made to the financial statements on the basis of materiality.	The consultation is expected to close in October 2020 and the outcome of this will be confirmed subsequently, as such based on our understanding and the evidence provided, we are satisfied that the impact of this will not be material to the financial statements.
Goodwin In addition to the above, the Goodwin case also examines alleged discrimination in the Teachers’ Pension Scheme. We are aware that the Government Actuary Department (GAD) have prepared a report which considers this at a national level. The NAO are seeking clearance from MHCLG for this report to be shared however we do not believe the analysis by GAD is likely to be available before the completion of our audit.	As above, management are satisfied that the potential impact of Goodwin is immaterial to the financial performance and position of the Authority as at 31 March 2020. This has been supported by the actuary who concur with this view. Management have proposed therefore that no adjustment is made to the financial statements on the basis of materiality.	We do not believe the analysis by GAD is likely to be available before the completion of our audit. Through our audit work we are satisfied we have obtained sufficient assurance that the increased liability will not be material to the financial statements.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings - £605.3m **Surplus Assets - £1.4m** **Investment properties - £23.6m**	Operational land and buildings comprises £605m of assets which are valued at EUV where market data is available or if specialised i.e. schools, libraries etc depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Surplus assets and investment properties are measured at fair value at the balance sheet date, based on highest and best use. The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020, this includes all assets which are required to be measured at fair value. Management have demonstrated through correspondence with the valuer their challenge of assumptions used in the estimation of asset values. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures in relation to estimation uncertainty at Note 25. The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £14.1m.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work, which has included the user of our own valuer to assist with our review and challenge • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • tested on a sample basis revaluations of the Council's operational properties and investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements No issues have been identified as a result of our work in this area.	**Green**

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £812.6m	The Council's total net pension liability at 31 March 2020 is £812.6m (PY £924.8m) comprising the Warwickshire Pension Fund Local Government Pension Scheme and unfunded defined benefit pension scheme obligations in relation to Firefighters and Teachers. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £160.7m net actuarial gain during 2019/20.	We have • Undertaken an assessment of management's expert • Reviewed and assessed the actuary's roll forward approach taken, • Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged these assumptions and the calculation method applied (see assumptions table below) In addition to this, we have: • identified no issues with the completeness and accuracy of the underlying information used to determine the estimate. • confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. • satisfied ourselves in respect of the reasonableness of: - the Council's share of pension assets. - of the decrease in the estimate, and - the adequacy of disclosure of estimate in the financial statements	Green

Assumption	Actuary value – LGPS/ Teachers	Actuary value - Firefighters	PwC range	Assessment
Discount rate	2.3%	2.3%	2.3%	Green
Pension increase rate	1.9%	1.9%	1.8% - 2%	Green
Salary growth	2.7%	2.8%	Scheme specific	Green
Life expectancy – Males currently aged 45 / 65	21.6/ 22.5	26.4/ 27.5	Consistent	Green
Life expectancy – Females currently aged 45 / 65	23.8/ 25.4	28.5/ 29.7	Consistent	Green

Assessment

- Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2/3 investments - £174.6m	The Authority hold material investments categorised as level 2 of the fair value hierarchy. These relate to investments held for the purpose of accruing interest on an expected cashflow model and assets in two funds, namely the CCLA property Fund and Threadneedle Social Bond Fund. The former was gated at the period end as a result of Covid-19 to protect investors. These are valued based on some observable inputs i.e. quoted prices for similar assets by management's expert. The Authority also hold equity instruments of £2m which are designated at level 3 due to their valuation being based on unobservable inputs i.e. multiple of earnings. These are immaterial to the financial statements. Estimation uncertainty in relation to fair value and specifically Covid-19 has been disclosed in note 25.	• The valuation of these investments is subject to varying degrees of estimation uncertainty. The Authority discloses the differing methods of valuation for these assets within the accounts. In all cases the Council choses to rely on the fair value provided by management's expert. • We have assessed the competency of management's expert and identified no issues. • Appropriateness of the underlying information used to determine the estimate is reasonable, we have challenged management in respect of the classification of the CCLA Property Fund as level 2 on the basis that no active market was present at year end. Overall we are satisfied that this remains appropriate and the value of the investment is £10.3m and therefore reflects a small percentage of the total Authority assets. • The methodology applied in calculating these estimates is consistent with peers and industry practice. • Disclosure of estimate in the financial statements is adequate	**Green**

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management have assessed the Authority as a going concern on the basis that: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Authority’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date. • The Authority are required by statute to produce an annual balanced budget, this is supplemented by the MTFS which currently covers the period to 31 March 2025 • The Authority has ample cash and cash equivalent balances to ensure solvency • The Authority has a robust balance sheet and strong reserves at 31 March 2020	Management’s assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management’s assessment has concluded that no material uncertainty in respect of going concern exists. We consider management’s process to be adequate and demonstrates consideration of the relevant factors.
Work performed We have reviewed management’s assessment of the going concern assumption and basis of preparation of the financial statements	We have reviewed management’s assessment and note the following key findings: • A balanced budget has been set for 2020/21 and the five year rolling MTFS have been agreed and is also balanced • The Authority have responded proactively to the threat of COVID-19 and are remodelling the MTFS and monitoring the situation quarterly, this is evidence in the latest Q1 2020/21 report taken to Cabinet in September 2020 • The balance sheet and reserves of the County Council are robust, and despite significant financial challenge, these are forecast to remain as such throughout the life of the MTFS. This is including investment of reserves and not just use of reserves to balance budgets. • The Authority has a strong cash position and models prepared show that to 31 March 2023, liquid assets will remain comfortably above the minimum cash required to operate.
Concluding comments	• Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable and sufficient disclosure has been made in the financial statements of this, no additional disclosures have been required as a result of Covid-19 • Based on the above comments, we anticipate being able to issue an unmodified opinion.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work
Written representations	A letter of representation has been requested from the Council, which is appended. We have requested specific representations in respect of the 'material valuation uncertainty' disclosures (referred to on pages 6, 7 and 11) and management's proposals not to make adjustments for the matters reported on page 10.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bodies with which the Council hold cash and cash equivalent balances and investments. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation
Disclosures	Our review found no material omissions in the financial statements, we have made a number of proposed amendments to disclosures in the financial statements which are detailed in the appendix.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting thresholds, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed, plans will be put in place to complete this work ahead of the submission deadline
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Warwickshire County Council in the audit report, this is due to outstanding consideration of an objection to the 2017/18 accounts and completion of our WGA procedures

Value for Money

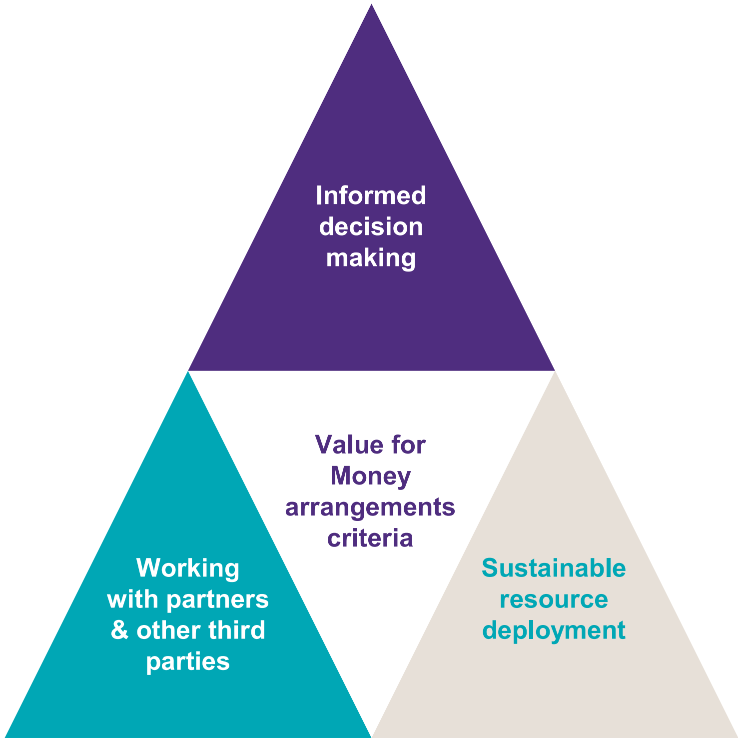
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. This related to financial planning and sustainability and we communicated these risks to you in our Audit Plan on 20 July 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The outturn for the 2019/20 financial year compared to budget
- The new rolling MTFS devised, which underpins the Council Plan 2025; and
- The response to COVID-19 and factoring of this in future plans

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 18.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial sustainability and delivery of long term plans

The Council has a good track record of delivering in year budgets and savings targets, it is forecast that a net underspend will be reported in 2019/20 and reserves will rise to £171m.

The medium term financial strategy has been updated to tie in with the 2020-25 Council Plan and will be updated annually to ensure it remains dynamic and robust.

The primary challenge at the current time is the uncertainty over the funding settlement which is yet to provide clarity in a number of areas such as business rates, Dedicated Schools Grant (DSG) and funding for pressures in the system such as adult social care.

In addition to this, to deliver a balanced budget, the Authority will need to deliver £6.2m of savings in 2020/21 increasing to £33m over the lifetime of the plan. This is considered to be a significant risk to achievement of the Medium Term Financial Strategy (MTFS).

Given these challenges we believe a residual VFM risk in respect of planning finances effectively to support sustainable delivery of strategic priorities and maintain statutory functions remains.

In response to this risk we have:

- Reviewed performance in the period by comparing outturn position to budgeted for revenue and capital budgets, as we as assessing any achievement or shortfall of savings targets where applicable.
- Held enquiries of key officers to understand the process in place for future medium term financial planning and reviewed underlying documentation to ensure assumptions are reasonable.

In light of the emerging issues of COVID-19, we have also had regard to the NAOs AGN 03 and considered two areas of potential VFM risk in relation to financial resilience and service failure.

Findings

The Council has achieved the underspend forecast against the general fund budget in 2019/20. It has made positive contributions to reserves as well as carry forwards to the 2020/21 budget. This will be critical to future sustainability and addressing the cost pressures brought on by the COVID-19 Pandemic.

The savings plan for 2019/20 assumed £14.2m of savings would be delivered which compared to £10.5m actual achieved. The residual balance of £3.7m relates primarily to looked after children and has been earmarked for delivery in future years or replaced by budget allocations. Across the three period of the One Organisational Plan the Council achieved 85% of its savings target of £56.5m. The Council has now transitioned to a 5 year rolling MTFS model which sets a balanced budget through to 31 March 2025.

As part of the transformation of services and design of the new MTFS, there has been increased scrutiny of budgeting and focus on the accuracy of forecasting. This has been beneficial in minimising the variations in budgeted position between quarters and demonstrates that financial management is becoming stronger.

We have reviewed assumptions in relation to resources and funding, permanent spending needs, savings and reserves over the life of the plan and are satisfied that these are reasonable. In particular, allocations have been made to areas which are currently experiencing, and are predicted to continue to see, greater demand such as education and social care. The reserves of the Authority will reduce over the period of MTFS to £173.9m by March 2021 and £152.7m by 2025 through a mixture of investment and other use but are forecast to remain strong. The CIPFA financial resilience indicator currently puts the Council at the top end (lower risk) in terms of level of reserves and therefore this position is unlikely to deteriorate significantly based on the MTFS forecast.

Value for Money (continued)

Findings (continued)

The Council has identified the impact the pandemic is likely to have on the MTFS on a scenario basis. On a ‘most likely’ or medium risk basis this highlights the need to make significant additional savings of £16m in 2021/22 and £23m in total over the life of the MTFS. The scenario assumes that there will be a short recession and gradual recovery which corresponds to early economic forecasts but ultimately the level of uncertainty in regard to this depends on a number of currently unknow factors and events.

Review of Q1 2020/21 financial monitoring has forecast a small overspend of £3.364m and some slippage in delivery of savings plans forecast at £3m due to COVID-19. Based on the nature of savings and the reason for non-delivery, it is anticipated that once the pandemic eases these will be achieved in future years. Cabinet have been requested to approve the transfer of £8m underspend in Corporate Services to provide capacity to soften the short term phasing of additional savings from 2021/22.

Conclusion

In conclusion, we are satisfied that the Council has robust and appropriate arrangements in place to both deliver financial plans and plan for future financial sustainability, notwithstanding the additional pressures now presented by Covid-19.

In regard to the pandemic, the Council has been proactive in reshaping the MTFS, identifying emerging gaps in this and adding another dimension to quarterly and annual reporting which will be monitored as the organisation moves forward.

It is important however to recognise the significant challenges the Council faces and in particular the need to deliver £23m in savings plans in addition to those already identified in the MTFS. This is the primary risk to delivery of the plan and the Council must now work to mobilise the recovery plan and implement the framework it proposes.

Overall, there is a clear link between the overarching Council plan, MTFS and quarterly reporting, which has become further embedded during the year following the internal reorganisation and allows for easier alignment of these strands and a cohesive strategy.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers' Pension return	4,200	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £87,795 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	The timing of teachers pension return certification is after completion of the external audit of the financial statements. In addition to this, the materiality of amounts involved to our opinion and unlikelihood of material errors arising as a result of this work reduce the threat to an acceptable level.
		Management	The Council has informed management who will determine whether to amend returns of our findings and agree the accuracy of our reports on grants.
Non-audit related:			
CFO Insights	10,000	Self-Interest	A £30,000 for a three year subscription to CFO insights (£10,000 per year) was paid by the Council in 2018/19. This is a recurring fee and therefore a self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£87,795) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to non-audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

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Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted/ unadjusted misstatements

As a result of audit procedures performed, we have not identified any adjusted misstatements in the accounts. As noted on page 10 management have considered the impact of the proposed McCloud restitution and Goodwin judgment upon the Council's net pension liability, and the inclusion of the deficit on the Designated Schools Grant as a negative earmarked reserve and not part of the unearmarked general fund balance and have determined not to adjust for these matters as they are immaterial to the results of the Council and its financial position at the year-end.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Pooled Budgets	No accounting policy was included in the draft accounts for pooled budgets, this was highlighted in the technical review last year, as a material area of the accounts we would expect to see an accounting policy which sets out the treatment of pooled budgets with reference to IFRS 11 for joint arrangements and how these judgments have been made.	✓
IFRS 16 Leases	To comply with the requirement of IAS 8 para 31 as a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	✓
Events after the balance sheet date	Event in relation to Local Authority schools transferring to Academy status post 31 March 2020 has been updated based on revised value of assets. The Authority have also included an event after the balance sheet in relation to Covid-19.	✓
Various	As a result of audit procedures performed, we have identified a number of minor changes to the disclosures within the financial statements (i.e. agreement of note 37 to the report of the IAS 19 valuation report provided by the actuary identified some rounding differences) and Narrative Report.	✓

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Adjustment to the Local Government Pension Scheme in respect of the McCloud judgment and GMP equalisation	8,797	(8,797)	• Nil	Adjustment was immaterial in the prior year and allowance has now been made in the 2019/20 IAS 19 valuation as at 31 March 2020
Overall impact	**£8,797**	**(£8,797)**	**£Nil**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£87,795	£87,795
Total audit fees (excluding VAT)	**£87,795**	**£87,795**

The fees reconcile to the financial statements Note 30 through the following reconciling items:

- **Fees per the financial statements - £103,245**
- Additional audit fees in 2018/19 – (£9,000)
- NFI payment to Cabinet Office – (£2,250)
- TPS certification 2018/19 – (£4,200)
- **Total fees per above - £87,795**

A £30,000 for a three year subscription to CFO insights (£10,000 per year) was paid by the Council in 2018/19

Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers' Pension return	£4,200	£TBC
CFO Insights	£10,000	£10,000
Total non- audit fees (excluding VAT)	**£14,200**	**TBC**

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Warwickshire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Warwickshire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet as at 31 March 2020 and, Cash Flow Statement, and notes to the financial statements, including the statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director for Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director for Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director for Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

In our evaluation of the Strategic Director of Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to *Note 25: Assumptions made about the future and other major sources of estimation uncertainty* of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings as at 31 March 2020. As disclosed in Note 25 the duration of the pandemic and the depth of and timeframe for recovery from any economic downturn remain uncertain. Therefore, the financial impact and risk of a material adjustment to the balance sheet going forward remains.

The Council's valuers have stated that there is a material uncertainty about the movement of property process and valuations as a result of Covid-19. The Council has decided to use the valuer's estimates of property valuations and movements as the best available estimates of the values of the Council's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. Our opinion is not modified in respect of this matter.

We also draw attention *to Note 37: Pension schemes*, which describes the effects of the Covid-19 pandemic on the valuation of the Warwickshire Pension Fund's two pooled property funds as at 31 March 2020. The property funds' valuers have stated that there is a material uncertainty about the valuations as a result of Covid-19. The Fund has decided to use the valuer's estimates as the best available estimates of the values of the Fund's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. The Council's proportion of these funds is approximately 50% which equates to £109 million. Our opinion is not modified in respect of this matter.

Other information

The Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts (sections B and D), the Narrative Statement (section A) and the Annual Governance Statement (section C), other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts (sections B and D), the Narrative Statement (section A) and the Annual Governance Statement (section C) for the financial year for which the financial statements are prepared is consistent with the financial statements.

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Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Strategic Director for Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Financial Statements set out on page x, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director for Resources. The Strategic Director for Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director for Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director for Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Authority is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process. In this authority the Audit & Standards Committee is charged with assisting it in meeting these responsibilities.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not finalised the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have also completed:

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020, and
- our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

27 October 2020

Management letter of representation

Grant Thornton UK LLP

The Colmore Building

20 Colmore Circus

Birmingham

B4 6AT

13 October 2020

Dear Sirs

Warwickshire Country Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Warwickshire County Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

i. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

ii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

v. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

i. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

ii. We have considered the matters included in your Audit Findings Report in respect of:

   a. the impact of the proposed McCloud restitution and Goodwin judgment upon the Council's net pension liability, and
   b. the inclusion of the deficit on the Designated Schools Grant as a negative earmarked reserve and not part of the unearmarked general fund balance

   We have not adjusted the financial statements for these matters brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions

iii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

iv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

v. The prior period adjustments disclosed in Note 3 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

vi. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

vii. The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

As a consequence economic activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence and published build cost information for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

The Council's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the Council's land and buildings than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, the valuers recommend that the Council keeps the valuation of its properties under frequent review.

For avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

Information Provided

i. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

   a. management;

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Management letter of representation

a. employees who have significant roles in internal control; or

b. others where the fraud could have a material effect on the financial statements.

i. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

ii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

iii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

iv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit & Standards Committee at its meeting on 28 September 2020.

Signed on behalf of the Council

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The Audit Findings for Warwickshire Pension Fund

Year ended 31 March 2020

27 October 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Warwickshire Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Fund have had to contend with risks in relation to the possibility of delayed contributions, volatile returns on investments, disruptions to administration of the Fund and prioritising the health and safety of staff and members. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 April 2020 and presented this to the Audit & Standards Committee on 20 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information. The draft financial statements were published and provided to the audit team on 26 June 2020 and the audit has been conducted on a remote basis. Fortunately, both the audit team and Council finance team have avoided any significant challenges through staff illness and lack of availability.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work has been completed remotely during July and August and continues into September. Our findings are summarised on pages 4 to 12. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Pension Fund’s reported financial position in the draft financial statements. Other audit adjustments are detailed in Appendix A. Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix C or material changes to the financial statements. Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund’s two pooled property funds as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Fund’s financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund’s financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 20 July 2020, to reflect our response to the Covid-19 pandemic. This included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption, classification of assets in the fair value hierarchy and narrative disclosure.

Conclusion

We have completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion, as detailed in Appendix C.

Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan.

	Pension Fund Amount (£)	Factors considered
Materiality for the financial statements	£20m	We determined materiality for the audit to be 1% of prior year net assets. This benchmark is considered the most appropriate based on the nature of the Pension Fund.
Performance materiality	£15m	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	£1m	Triviality is the threshold at which we will communicate misstatements to the Audit & Standards Committee.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 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 expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that, quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We worked 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 assessed the implications for our materiality calculations which ultimately remained the same. We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose We have: • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations • Evaluated management's assumptions that underpin the revised MTFS and the impact on management's going concern assessment Our audit work has not identified any specific issues in respect of Covid-19. However, as noted on page 9 we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's two pooled property funds as a result of Covid-19. Our opinion is not modified in this respect.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) 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 ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Warwickshire Pension Fund, mean that all forms of fraud are seen as unacceptable	We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds 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, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls

Significant audit risks

Risks identified in our Audit Plan | **Auditor commentary**

Valuation of Level 3 Investments (Annual revaluation)

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and the custodian
- for all level 3 investment, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period
- we have evaluated the competence, capabilities and objectivity of the valuation expert in addition to the assurance gained from the audited accounts of the investment fund, and
- reviewed investment manager service auditor report on design effectiveness of internal controls.

Apart from the matter below, no other issues have been identified.

As highlighted above, our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. For this year, the following differences were identified;

- Alcentra (Private Debt): The valuation received from the Fund Manager is £29.5m the custodian figure is £29.9m which is a difference of £0.4m.
- Standard Life Capital (Infrastructure): The valuation received from the Fund Manager is £22.9m the custodian figure is £22.3m which is a difference of £0.6m.
- Partners Group (infrastructure): The valuation received from the Fund Manager is £40.4m the custodian figure is £41.9m which is a difference of £1.5m.
- HarbourVest (Private Equity) - The Fund Manager confirmation figure is in USD and EUROS - The figure included by the Custodian is £119.8m. Our review of the independent Fund Manager confirmation and applying exchange rates provides an estimate of £126.3m. The difference between these figures is £6.5m

Taking these four differences together shows that the management estimate of investment values at year end is £5.2m less than more recently updated information. There are also differences on some Level 1 and Level 2 investments where the management estimate of investment values at year end is £1m more than more recently updated information. The net position is therefore £4.2m less than recently updated information. Given that our headline materiality is £20m, we are comfortable that these differences do not present of a risk of material misstatement of the fair value of your investments. Management has determined not to adjust for these. The differences referenced above do not indicate any weakness in management’s arrangements for estimating investment values at year end.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
McCloud In July 2020, The Ministry of Housing, Communities & Local Government (MHCLG) published its consultation on reforms to public sector pension schemes, this included the proposed remedy to address the discrimination caused by previous protections offered for those closer to retirement age.	We have discussed the potential impact of the McCloud remedy with management in consultation with management's expert, Hymans Robertson LLP. An allowance for McCloud has already been included in the IAS 26 valuation as at 31 March 2020 and management have demonstrated that when compared to the potential restitution put forward in the consultation, the difference would be immaterial at £3m. Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts.	We are comfortable with the approach management have adopted and agree that additional disclosure will aid transparency. The consultation is expected to close in October 2020 and the outcome of this will be confirmed subsequent, as such based on our understanding and the evidence provided, we are satisfied that the impact of this will not be material to the financial statements.
Goodwin In addition to the above, the Goodwin case also examines alleged discrimination in the Teachers' Pension Scheme and we are aware that the Government Actuary Department (GAD) have been commissioned to prepare a report which considers this at a national level. The NAO are seeking clearance from MHCLG for this report to be shared.	As above, management are satisfied that the potential impact of Goodwin is immaterial to the valuation of the Fund as at 31 March 2020 as it is expected to be 0.1% to 0.2% of total liabilities (approximately £5m) however it is too early to understand the remedy. This has been supported by the actuary who concur with this view. Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts.	The Tribunal decision was on 30 June and Chief Secretary to the Secretary's Statement was on 20 July (link). As these clarify the legal position our view is that the event is potentially an adjusting post balance sheet event. Management are not proposing to amend the accounts further. We are satisfied that additional disclosure will aid transparency and through our audit work we have obtained sufficient assurance that the increased liability will not be material to the financial statements.
Technical review The technical review process is a key element of our quality and risk management procedures and clients within the review population such as the Pension Fund are subject to review every three years on a rotational basis.	As a result of the review undertaken in 2019/20, we identified no fundamental issues in the draft financial statements. The matters identified have been discussed with management and where appropriate, the necessary amendments to the financial statements have been processed.	We are satisfied that management have responded accordingly to findings of the technical review.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 investments	The Pension Fund investments in level 2 are totalled on the balance sheet as at 31 March 2020 at £1,582.4m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed a custodian and expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension committee. The value of the investment has increased by £188.2m, and in total Level 2 investments now make up 78% of the fund.	The fund has a material balance of investments with some observable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounts. In each case the Fund choses to rely on the valuation provided by the fund manager. Similar to our approach for level 3 investments, we have; • Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, • Considered the valuation techniques used against industry practice – concluding the methodology applied in calculating these estimates is consistent with peers and industry practice • Satisfied ourselves in respect of the appropriateness of the underlying information used to determine the estimate is reasonable and based on the best information available to management • Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate It should be noted however that a material valuation uncertainty has been included in the valuation of two level 2 investments in pooled property funds (Schroders and Threadneedle) with a combined value of £217.4m at 31 March 2020. This has been disclosed in Note *5: Assumptions made about the future and other major sources of estimation uncertainty.* These funds make up 11% of the Fund and we are therefore proposing an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Fund's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.	**Green**

Assessment

- Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in infrastructure, Private Debt and unquoted equity investments that in total are valued on the balance sheet as at 31 March 2020 at £271.1m. These investments are not traded on an open exchange/,market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension committee. The value of the investment has increased by £60.5m, however level 3 investments still only account for 13% of the fund.	The fund has a material balance of investments with significant unobservable inputs and also those with some observable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounts. In each case the Fund choses to rely on the valuation provided by the fund manager. As outlined in our testing of the valuation of level 3 investments we have: • Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, • Considered the valuation techniques used against industry practice – concluding the methodology applied in calculating these estimates is consistent with peers and industry practice • Satisfied ourselves in respect of the appropriateness of the underlying information used to determine the estimate is reasonable and based on the best information available to management • Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate	Green

Assessment

- Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management have assessed the Fund as a going concern on the basis that: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date. • The fund account has a strong balance as at 31 March 2020 and at the last formal valuation was 92% funded • A detailed investment and funding strategy are in place • A cashflow management strategy has been outlined to ensure the Fund remains solvent	Whilst the Fund’s financial statements are prepared in accordance with CIPFA’s Code of Local Authority Accounting the PRAG Pension SORP provides a helpful additional guidance for defined benefit schemes in noting that even where a scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. As noted the Scheme is currently 92% funded and has sufficient funds to continue meeting benefit payments for the medium to long term. In respect of any such decision for wind up the LGPS is a statutory scheme that can only be wound up by Government and there are currently no intentions to wind up the Warwickshire Pension Fund.
Work performed We have reviewed management’s assessment of the going concern assumption and basis of preparation of the financial statements	We have reviewed management’s assessment and note the following key findings: • Cash flow continues to be monitored on a daily basis and per Q1 2020/21 performance management reporting, operational outflows are balanced by inflows of contributions and other income. The value of the fund also shows signs of recovery following a dip experiences when the market was under significant stress due to Covid-19. • The actuary Hymans Robertson, who act as management's expert, have developed a comprehensive cash flow management strategy based around scenarios whereby District Councils either do or don’t make early pension contributions prepayments. In all scenarios, there is potential for negative cash flows and this is a matter of timing dependent on whether contributions are paid monthly or upfront. • While this is not necessarily indicative of a going concern issue, the Pension Fund should act on the various mechanisms put forward by the actuary to ensure cash buffers remain consistent and additional income is generated where possible with the contributions received and investments held. • A thorough understanding of liquidity and hence the ability to realise investments will ensure help ensure solvency and avoid the need to make forced sales of assets
Concluding comments	• Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable and sufficient disclosure has been made in the financial statements of this, no additional disclosures have been required as a result of Covid-19 • Based on the above comments, we anticipate being able to issue an unmodified opinion.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended. A letter of representation has been requested from the Council, which is appended. We have requested specific representations in respect of the 'material valuation uncertainty' disclosures (referred to on page 9) and management's proposals not to make adjustments for the matters reported on pages 7, 8 and 16.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bodies with which the Pension Fund hold cash and cash equivalent balances and investments. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements, we have made a number of proposed amendments to disclosures in the financial statements which are detailed in the appendix A.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on 13 October 2020.

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Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	7,000	Self Interest	This is a recurring fee and therefore poses a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £7,000, in comparison to the total fee for the audit of £22,647 and in particular to GTUK's turnover overall. Further, the work is on audit related services. It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	We have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body. Any decisions relating to changing controls over financial information or edits required to financial information arising from our findings will be a decision made by informed management.
		Management	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. The Pension Fund has officers in place who understand the operation of systems and can challenge our recommendations as appropriate. They have sufficient authority or report to the s151 Officer who can make informed decisions in respect of our findings.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Standards Committee. None of the services provided are subject to contingent fees.

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted/ unadjusted misstatements

As a result of audit procedures undertaken, we have not identified any misstatement for adjustment for the year ending 31 March 2020. As a result of audit procedures performed, we have not identified any adjusted misstatements in the accounts. As noted on pages 7 and 9 management have considered the impact of the proposed McCloud restitution and Goodwin judgment upon the Fund's pension liability and the differences in asset valuations as the result of more recent updated information being available and have determined not to adjust for these matters as they are immaterial to the results of the Fund's financial position at the year-end.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure area	Auditor recommendations	Adjusted?
Events after the reporting date	A non-adjusting post balance sheet event should be included in relation to the restructure of share capital in the Border to Coast Pension Partnership Limited. Following discussions with management it was agreed that non-adjusting post balance sheet events should be enhanced in respect of the impact of Covid-19.	✓
Border to Coast	As B2C constitutes a joint venture of the Pension Fund, disclosure in the accounts should include the nature of and changes in the risks associated with its interest in B2C in line with IFRS 12.	✓
Key management personnel remuneration	Key management personnel remuneration disclosure should be updated to include the short term employee benefits of the Strategic Director for Resources and Assistant Director of Finance.	✓
Contractual Commitments	Review of working papers to support the calculation of contractual commitments at 31 March 2020 identified minor errors in exchange rate applied and figures picked up. The difference between the amount disclosed of £302.6m and actual commitments is £1.8m. **Management response** Amount is immaterial therefore no adjustment to disclosure proposed.	X
Net Assets Statement	A disclosure outlining how the fund account for pension fund liabilities should be included below the net assets statement in line with the CIPFA model accounts.	✓
Critical judgments in applying accounting policies	The judgment made by the Pension Fund in relation to unquoted PE investments was not clearly articulated in the draft disclosure. Judgment in relation to McCloud should be revised to ensure consistency with note 28 of the accounts	✓
Nature and extent of risks arising from financial instruments	Sensitivity analysis should be included in relation to interest rate risk in line with other risk disclosures and requirements of the Code.	✓
Actuarial present value of promised retirement benefits	The net liability figure as at 31 March 2020 was missing from draft disclosure.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund	£22,647	£22,647
Total audit fees (excluding VAT)	**£22,647**	**£22,647**

Non-audit fees for other services	Proposed fee	Final fee
Provision of IAS 19 Assurances to Scheme Employer auditors	£7,000	£7,000
Total non- audit fees (excluding VAT)	**£7,000**	**£7,000**

The fees reconcile to Note 14 of the financial statements through the following reconciling items:

- **Fees per the financial statements - £18,397**
- Audit fee variation 2019/20 - £4,250
- Non-audit fees - £7,000
- **Total fees per above - £29,647**

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Warwickshire County Council on the pension fund financial statements of Warwickshire Pension Fund

Opinion

We have audited the financial statements of Warwickshire Pension Fund (the 'pension fund') administered by Warwickshire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Warwickshire Pension Fund Account, the Net Assets Statement and notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2020, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities.
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director for Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director for Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Strategic Director for Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Audit opinion

In our evaluation of the Strategic Director for Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of pooled property funds

We draw attention to *Note 5: Assumptions made about the future and other major sources of estimation uncertainty* of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Fund's two pooled property funds as at 31 March 2020. The property funds' valuers have stated that there is a material uncertainty about the valuations as a result of Covid-19. The Fund has decided to use the valuer's estimates as the best available estimates of the values of the Fund's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. Our opinion is not modified in respect of this matter.

Other information

The Strategic Director for Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts (sections B and D), the Narrative Report (section A) and the Annual Governance Statement (section C), other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts (sections B and D), the Narrative Report (section A) and the Annual Governance Statement (section C) for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Strategic Director for Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 7 in Section D, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director for Resources.

Audit opinion

The Strategic Director for Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund’s financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director for Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund’s financial statements, the Strategic Director for Resources is responsible for assessing the pension fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Authority is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority’s financial reporting process. In this authority the Audit & Standards Committee is charged with assisting it in meeting these responsibilities.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund’s financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

27 October 2020

Management letter of representation

Grant Thornton UK LLP

The Colmore Building

20 Colmore Circus

Birmingham

B4 6AT

13 October 2020

Dear Sirs

Warwickshire Pension Fund
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Warwickshire Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

i. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

ii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

v. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the Fund has been assigned, pledged or mortgaged

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

vii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes with the exception of one immaterial disclosure change and therefore are free of material misstatements, including omissions.

x. We have considered the matters included in your Audit Findings Report in respect of:

   a. the impact of the proposed McCloud restitution and Goodwin judgment upon the Fund's pensions liability,
   b. the differences in asset valuations as the result of more recent updated information being available, and
   c. the value of contractual commitments

   We have not adjusted the financial statements for these matters brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end and in respect of investment valuations there are no indications of weakness in management's arrangements for estimating investment values at year end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xiv. As disclosed in note 5 to the financial statements, due to the uncertainty in the financial markets caused by the current Coronavirus pandemic, there is an increased risk that the valuation of the Fund's Level 2 pooled property investments may be affected and the valuations may not fully take into accounts the impact of Covid-19 pandemic.

Information Provided

i. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

   a. management;

   b. employees who have significant roles in internal control; or

   c. others where the fraud could have a material effect on the financial statements.

Management letter of representation

vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered

viii. There were two breaches reported to The Pensions Regulator in respect of administration activity during the year, but these do not impact on the Accounts. There were no or reports of issues to other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

ix. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

x. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit & Standards Committee at its meeting on 28 September 2020.

Yours faithfully

Name................................

Position.............................

Date................................

Name................................

Position.............................

Date................................

Signed on behalf of the Fund

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Agenda Item 3

Audit and Standards Committee

5 November 2020

Local Authority Financial Reporting and External Audit: Independent Review

Recommendations

The Audit and Standards Committee is asked comment on the recommendations of the Redmond Review in light of the implications for the County Council and the views of the Strategic Director for Resources as set out in the report.

1. Purpose of the Report

1.1. In the summer of 2019 the Secretary of State for Housing Communities and Local Government, Robert Jenrick MP, commissioned a review into the effectiveness of external audit and transparency of financial reporting in local authorities in England. Sir Tony Redmond issued his report of the review's findings on 8 September 2020.

1.2. The purpose of this report is to inform the Committee of the key findings set out in the report, the resulting recommendations, the implications for the County Council and the work of this Committee and the views of the Authority's Strategic Director for Resources (as the statutory s151 officer) on the changes proposed.

1.3. There are also implications of the review for our external auditors. **Appendix A** is a note from Grant Thornton on the same issue. The auditors will be at the meeting to add any commentary from their perspective.

2. Local Audit Arrangements

Key Findings

2.1. The report expressed serious concerns about the state of the local audit market, with the current market found to be very vulnerable and the resourcing of local audit in serious question.

2.2. It identified that six different entities currently have a statutory role in overseeing and/or regulating elements of the local authority accounting and audit framework. The report found that this resulted in a lack of coherence in the system, compounded by the fact that no one body has oversight of the whole.

2.3. Concerns were also identified regarding the effectiveness of local audit. In 2018/19 40% of audits were not completed by the end of July deadline. The report concluded that the cost of audit is 25% less than it should be and as a result the quality of auditors has reduced with not all auditors having sufficient experience or knowledge of local authorities and local government finance.

2.4. Finally in terms of the local audit arrangements, all of the firms active in the market indicated that they are very conscious of the reputational damage of a poor rating from the Financial Reporting Council for one of their local authority audits, and that this influenced the focus of their audit work.

Recommendations

2.5. The recommendations for changes to local audit arrangements as a result of these findings are:

- The establishment of a new ‘Office of Local Audit Regulation’ to manage, oversee and regulate local audit;
- The establishment of a Liaison Committee, comprising key stakeholders and chaired by the Ministry for Housing, Communities and Local Government (MHCLG), to receive reports from the new regulator on the development of local audit;
- The Office of Local Audit Regulation is given the power to impose sanctions where there are serious or persistent breaches of expected quality standards by those undertaking local authority audits;
- A revision of the fee structure to reflect the true cost of local audit; and
- The engagement of audit firms should be accompanied by a new price/quality regime to ensure that audits are performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities.

Implications for the County Council

2.6. There are no direct implications for the County Council, except the expectation we will face a 25% increase in fees. This would increase the cost of audit by up to £40k for the County Council and the Pension Fund and would bring fee levels back to where they were a few years ago.

2.7. Our audit was completed on time and the key members of our local audit team have been the same for several years and are experienced in local government. Therefore, these issues identified by the Review are not those that have been experienced by the County Council to date.

Views of the Strategic Director for Resources

2.8. We would agree with many of the findings of the Redmond review. The current system is too fragmented and there is a consequent lack of clarity about roles and responsibilities. The market needs stabilising and there is a risk providers will exit the market. Reviewing these arrangements and giving one body overall oversight is therefore to be welcomed. However, this is supported with a note of caution. There is a risk that the new body will turn into another Audit Commission and, despite the intentions of the report, end up imposing ways of working and detailed reporting requirements on local authorities and providing commentary and oversight on policy issues that should be the responsibility of a local authority through its democratic mandate.

2.9. There is irritation in some quarters of local government about the potential increase in cost. It is difficult to judge whether this is a reaction to the tight financial position authorities find themselves in or a genuine belief that the cost of audit is currently about right and should not be increased. As stated above, we do not believe the fee increase to be unreasonable provided the additional capacity is directed to providing independent high-quality advice to those charged with governance.

3. Governance Arrangements

Key findings

3.1. The focus of the report in this area was on whether Audit Committees (or Audit and Standards in our case) sufficiently understand the issues to enable them to question and challenge in an effective way. The key findings were that there are:

- Relatively low numbers of independent Audit Committee members;
- Limitations on the capability of Audit Committee members to understand the issues;
- Little communication between the Audit Committee and inspectors;
- No real relationship between Audit Committee and Full Council;
- Little collective engagement between auditors and a local authority’s three statutory officers on either an informal or formal basis;
- Little use made of the work of Internal Audit by External Audit; and
- A lack of transparency of audit reports.

Recommendations

3.2. The recommendations for changes to governance arrangements as a result of these findings are:

- A requirement for at least 1 independent member on each Audit Committee;
- A requirement for the 3 statutory officers (the Chief Executive (head of paid service) the Strategic Director for Resources (s151 officer) and the Assistant Director for Governance and Policy (monitoring officer)), to meet External Audit at least annually;
- A requirement to train Audit Committee members;
- An annual report from the External Auditor to be presented to first Council meeting after 30 September;
- Endorsement of the new National Audit Office's proposed requirement for enhanced value for money reporting by auditors; and
- An induction/training mechanism for new s151s on final accounts.

Implications for the County Council

3.3. Our Audit and Standards Committee is chaired by an independent member and there is the potential for two other independent members of the Committee. However, in line with the report's findings, it is difficult to attract suitably skilled and experienced independent members. Two of the three statutory officers (s151 officer and Monitoring Officer) attend Audit and Standards Committee and from a finance perspective there are also quarterly informal meetings.

3.4. We do provide induction training to new Audit and Standards Committee members but if the recommendations are implemented this would need to become a more formal programme of activity. The new activity would be for the Chief Executive to meet the external auditors and the need for the Annual Audit Letter to be presented and reported to full Council rather than to this Committee, as it is at present.

3.5. It is worth noting that the new arrangements for reporting on value for money are intended to result in a less binary more narrative report. Depending on the detail of how this is implemented and the extent to which it signals a move back towards the old assessment processes will determine the amount of any additional work.

Views of the Strategic Director for Resources

3.6. There is little in this section of the report that we do not already do, seeing it as good practice irrespective of any externally set governance requirements. Therefore, the governance changes recommended are supported.

3.7. The only concern is in relation to the enhanced work on value for money and the potential capacity needed to support this activity. There is a risk this will result in our internal value for money activity becoming a compliance check rather than a source of insight to aid decision-making at a local level. However, the direction of travel of this work is being led by the National Audit Office rather than flowing from the Redmond Review itself.

4. Reporting Arrangements

Key Findings

4.1. There was agreement from all those that engaged with the review that local authority accounts are impenetrable for anyone other than experts and do not aid transparency about what local authorities do or how they use the money raised through local taxation. Specifics concerns were the focus of audit work on property and pension fund valuations which have little or no relevance to decision-making and the extent of variations in the content of the narrative statement.

4.2. Finally, there were concerns that Finance staff did not always have the necessary expertise or status in their organisation for their roles in completing the accounts process.

Recommendations

4.3. The recommendations for changes to reporting arrangements as a result of these findings are:

- A new (additional) standardised statement of services and costs that compares budget setting council tax information to outturn to be presented alongside the accounts. This will be consulted on and used in trial basis for the 2020/21 accounts. In 2021/22 the statement will be subject to audit;
- A requirement for CIPFA/LASAAC to review the statutory accounts to determine whether there is scope to simplify them by removing disclosures that do not add value, particularly in relation to property, plant and equipment and pensions valuation issues;
- An extension to the deadline for publishing audited local authority accounts to 30 September from 31 July each year; and
- A requirement for the CFO to confirm local authority staff are suitably skilled and experienced to produce the statutory accounts.

Implications for the County Council

4.4. The new standardised statement will be a significant additional piece of work at a time when the capacity of the Finance Service is already stretched. This may require additional resourcing. The statement will in part duplicate parts of the Statement of Accounts and the Council's normal outturn reporting. The content will be mandatory and will not align to our organisational structure, so will be an alternative cut of the same information.

4.5. The review of the required content of the statutory accounts is to be welcomed, but this is likely to be several years down the line. In the interim it would be helpful if some of the benefit of the extension of deadline for completing the audited accounts was allocated to local authorities.

4.6. In terms of the experience/status of staff completing the accounts within the Council, this was specifically recognised as a technical specialist role in the Finance Service redesign.

Views of the Strategic Director for Resources

4.7. We have made a considerable effort to make the narrative statement accessible for lay-readers of the Authority's accounts. Our continuous improvement in this has been acknowledged by both this Committee and full Council. The imposition of the additional new standardised statement because not all authorities have the same commitment to accessible, transparent reporting is, therefore, frustrating. Our preference would be for this to be tackled with individual authorities rather than a blanket change for all.

4.8. Internally the production of the new standardised statement is likely to create additional confusion. Elected Members will receive four reports essentially containing the same information but each in a different format with a different service breakdown – the financial monitoring reports to Cabinet, the statement of accounts itself, the narrative statement and the proposed new standardised statement. Internally, for those charged with governance, it is therefore difficult to identify any added benefit, especially given the additional resource input, without one of the other requirements being dropped.

4.9. For local communities the critical element in assessing the effectiveness of how their council tax was used is the relationship between financial and service performance. This can be done more effectively though the narrative statement rather than a further financial statement as, when done effectively it ties the planned service and financial performance together. This will be different for every authority.

4.10. The primary benefit of the new statement will be the ability to comment and make comparisons between authorities easier for those wanting to undertake external oversight or follow up on specific issues. But, even with a standardised format, this will not be simple. Local authorities are not homogenous, for example there are only eight authorities with the same mix of functions as the County Council and therefore a significant core understanding of local government would still be required to make any use of the statements meaningful.

4.11. The critical aspect of making the financial performance of local authorities more transparent and accessible is tackling the complexity of the statutory financial reporting requirements themselves. As the report acknowledges, this was beyond the remit of the Review and is still a further piece of work that is needed. We would strongly support any further endeavours to simplify the statements and would wish to see this taken forward in a collaborative way at the earliest opportunity.

4.12. The pressure to move the deadline for completion of the audit of accounts back to September is being driven by the capacity of the external audit firms to audit all public sector bodies (local government, health, colleges etc) within a three-month period. Extending the deadline to September therefore makes sense from a work planning perspective, however, it is somewhat incongruous when considered alongside proposed increases in audit fees and a stated desire to provide meaningful (and therefore timely) information to local residents.

4.13. That said, we recognise that many authorities struggle to meet the current 31 May deadline for the production of draft accounts and therefore, if a change is to be made, it would also ease the pressure on Finance teams to extend the deadline for the production of draft accounts back to the end of June.

4.14. However, extending the deadline for overall work planning purposes should not mean the length of individual audits is increased as later deadlines for audits risk overlapping with the start of the annual budget cycle. We would still want this to be done on the basis of an agreed local timetable e.g. a four-week audit remains a four-week audit, it is just the start date that moves.

4.15. There is one slight caveat to this. The delays in the audit of the 2019/20 accounts because of Covid-19 have led to more retrospective questioning of estimates and assumptions that were made at the end of March because more information is available six months further on. Any change of date should be accompanied by the recognition, where reasonable, that the accounts were produced at a point in time, based on the information and knowledge available at that time rather than the reopening of decisions based on hindsight.

5. Next Steps

5.1. Implementation of the recommendations from the Redmond Review will, in part, require regulatory or legislative change. The next stage is for the Government to respond to the review and indicate the possible timing for any changes that require legislative change. If supported by Government, there will also be a consultation on the content of the new standardised service statement that will need to close by December 2020 if it is to be implemented on a trial basis for the 2020/21 Accounts.

5.2. The Committee will be kept informed of progress on the implementation of the Redmond Review.

6. Financial Implications

6.1. There are two potential direct financial implications for the Authority as a result of implementing the recommendations of the Redmond Review. The first is the likely increase of up to £40,000 in the annual audit fee for both the County Council and Pension Fund accounts.

6.2. The second is the additional resource commitment needed to produce the new standardised statement. This is likely to consist of one-off funding for the changes needed to the financial systems to provide the data that underpins the new standardised report and then the additional permanent capacity needed to produce the additional statement and the associated working papers on an annual basis. The level of the additional costs cannot be assessed with any accuracy until the consultation paper on the new standardised statement is issued.

7. Environmental Implications

7.1. There are no environmental implications arising from this report.

8. Background Papers

"Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting" – the Redmond Review, published September 2020

Annex 4d "Illustrative Simplified Financial Statement: Unitary Authority" This is the nearest statement to the one the County Council would be required to produce if this proposal is taken forward.

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Elected Members have not been consulted in the preparation of this report.

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Local Government audit and financial reporting – the Redmond Review

Grant Thornton

October 2020

The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

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The system is not working

The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

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Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **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

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Sir Tony's Recommendations

A call for action

- **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
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**

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Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

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Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Sir Tony Redmond
September 2020

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September 2020

The Rt Hon Robert Jenrick MP

Secretary of State for Housing, Communities and Local Government
Ministry of Housing, Communities & Local Government
2 Marsham Street
London, SW1P 4DF

Dear Secretary of State,

In June 2019, I was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. I am grateful for the opportunity given to me by ministers to conduct this Review. Whilst conducting the Review my guiding principles have been accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.

This report sets out my conclusions. It makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. 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. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

It will be possible to achieve part, but only part, of what needs to be done without legislation. However, it is important to emphasise that to fully achieve the vision set out in the Review, primary legislation will be essential. Only this can give the new organisation the tools it needs to do its job and to rebuild the sustainability of the local audit market.

I should like to thank:

- First, all those stakeholders who have engaged with the Review and responded to the Review's Call for Views;
- Second, the excellent team which has supported the Review's work: Ollie Hulme, Joe Pilgrim, Beth Addison and Gareth Caller; and
- Third, all the members of the Review's advisory group: Lynn Pamment, Maggie McGhee, Professor Laurence Ferry, Catherine Frances, Vicky Rock, Richard Hornby and Mark Holmes. This formidable group provided much wise guidance and counsel, as well as lively challenge and debate, for which I am hugely grateful.

Responsibility for the Review's conclusions and recommendations, is however, mine and mine alone.

Sir Tony Redmond

Sir Tony Redmond

Contents

Executive Summary

- This Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has 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. It is important to note that this Review encompasses not only principal local authorities but also PCCs, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.

- The Review has received 156 responses to the Calls for Views and carried out more than 100 interviews. Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not to say that the audits are carried out unprofessionally but there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts.

- 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. Although there is some scope to effect alterations to the individual roles, appropriately fulfilled with the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.

- Consequently, a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.

- The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.

- The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits together with the process for managing vexatious complaints where issues have been raised by those bodies which have experienced such challenges.

- Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council. This demonstrates transparency and accountability from a public perspective which is currently lacking in many authorities.

- The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.

- The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to hold local authorities to account for their performance together with a robust and effective audit reporting regime.

- Aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements.

- Implementation of recommendations contained in this Review would, in part, require regulatory or legislative change but it is important to note that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in this Review.

Recommendations

The recommendations of this Review are as follows:

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to 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.

2. 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/ARGA; and
   - The Comptroller and Auditor General (C&AG)

   to be transferred to the OLAR.

3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

4. 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.

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

6. 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.

7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

20. The standardised statement should be subject to external audit.

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope

to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
    - Whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers;
    - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
    - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

1. Introduction

1.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. This Review examines the effectiveness of local audit as now practised.

1.2 The purpose of the Review is to test not only the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. In a similar context the brief of the Review extends to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

1.3 The framework for local audit encompasses procurement, contract management and delivery, the code of audit practice and regulation and accountability for performance. All of these aspects of local audit have been examined in depth. Whilst the focus of this Review is on local audit and public accountability there are a number of related factors which have contributed to the shape and nature of the findings. Such matters include: the breadth and complexity of International Financial Reporting Standards (IFRS); the role of the sponsoring department (MHCLG); and the current state of the local audit market. Local authorities include Councils, Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), and National Parks Authorities. NHS bodies are not local authorities and are outside the scope of this Review.

1.4 It is also important to emphasise that the Review includes the functions of Police and Fire Services as well as Parish Councils and Drainage Boards and due regard has been paid to the specific requirements of these bodies, as appropriate.

1.5 Substantial evidence has been collated from the 'Call for Views' and individual stakeholder meetings and this has formed the basis of the Report's findings. The co-operation received from all interested parties including local government practitioners, audit firms, professional accounting bodies, academia and the media and the general public has been much appreciated. All parties who have participated in the Review share a desire to ensure local audit is effective and that public accountability is seen to be achieved. The approach to the Review has sought to harness those valuable contributions.

1.6 Attention has been paid to the findings of the Brydon and Kingman Reviews as well as the study carried out by the Competition and Markets Authority (CMA). Each of these reviews offers an insight into the principles and practices of auditors in the corporate sector, which have relevance to the public sector, including local government.

1.7 While testing the quality of outcomes has been a key feature of this approach, attention has been directed towards the governance arrangements in the way in which audit reports are managed and reported. The focus here has been on the level of public awareness of audit findings. Current practices relating to the annual publication of financial information have also been reviewed with an emphasis on the transparency, access and intelligibility of such reports.

1.8 In examining options for change to the current local audit arrangements, account has also been taken of the potential resource implications of any new initiative or development contained in the recommendations.

Sir Tony Redmond

Sir Tony Redmond

2. The direction and regulation of local audit

2.1 Introduction

2.1.1 The direction and regulation of local audit must be structured as to enable public accountability to be served. Each stage of the local audit process must adhere to this and remain consistent throughout. Ultimately, the direction and regulation of audit must be coherent, consistent in quality monitoring and fulfil the public accountability principle. The test, therefore, is whether the current arrangements deliver that, or can be altered to achieve that, or whether a new structure for the local audit regulatory framework needs to be put in place.

2.1.2 Public Interest Reports may be seen as relating to the local community's serious concern, but these are rarely used. In any event, council taxpayers are entitled to know the outcome of the annual statutory audit whether it be positive or negative.

2.2 Overview of the Regulatory Framework

2.2.1 The 2014 Act split the responsibilities formerly carried out by the Audit Commission between a range of bodies. **Figure 2.1** summarises the entities that have a significant role or influence on the accounting, audit and governance framework within which local authorities operate.

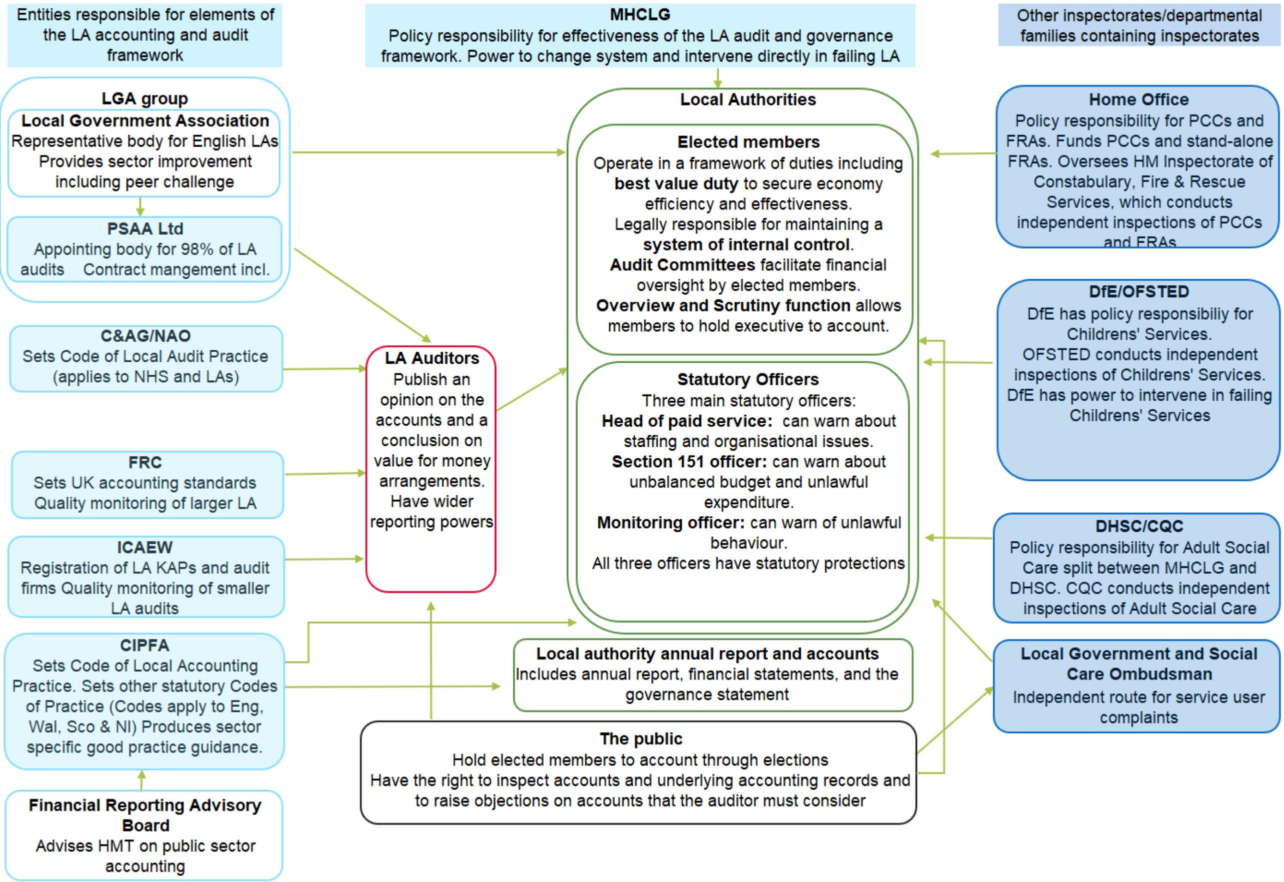
2.2.2 Currently there are six different entities with a statutory role in overseeing and/or regulating elements of the local authority accounting and audit framework. This framework is further complicated by the fact that different elements apply to different sectors. The elements of the audit framework undertaken by the C&AG, FRC and the ICAEW apply jointly to the local authorities and NHS bodies in England. However, whereas PSAA is the appointing body for 98% of local authority audits, NHS bodies do not have an appointing body and as such appoint their own auditors. By comparison the accounting framework applies to local authorities in England, Scotland, Wales and Northern Ireland, but not to the NHS.

2.2.3 Another challenge is that the local authority sector is not the main focus for some of the regulatory bodies; specifically:

- The C&AG and National Audit Office's (NAO's) responsibilities relate mainly to holding central government departments to account on behalf of Parliament.
- The vast majority of the FRC's and the ICAEW's work relates to the private sector, and in the FRC's case, to regulating the audit and corporate governance arrangements within listed companies known as Public Interest Entities ("PIEs").

2.2.4 Finally, none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner. Although various ad hoc forums have been set up to share information, it is not clear how the membership and remit of these has been agreed. As a result, the lack of co-ordination and the lack of a system leader is widely recognised as a weakness in the framework by most of the stakeholder groups.

Figure 2.1
The Local Authority Governance, Audit and Accounting Framework 2018-19



Notes
1. Adapted from Figure 1 in NAO report *Local Authority Governance* (Jan 2019)
2. There are other statutory officers in local authorities, but between them, the three listed have overall responsibility for effective goverance
3. Arrows show the influences on local authority governance arrangements
4. In a Police and Crime Commissioner or Fire and Rescue Authority, the Commissioner is the sole elected member; in a Mayoral Combined Authority, the mayor is the sole
5. Audit Committees are mandatory in PCCs, stand-alone FRAs and mayoral combined authorities. They are not mandatory for other LAs.
6. ICAS also has the power to act as a registering body for KAPs and audit firms. However, following mergers, no firms active in England are currently registered with ICAS.
7. MHCLG part funds the LGA's sector improvement work

2.3 Functions of the bodies responsible for the framework

PSAA Ltd

2.3.1 One of the original objectives behind the 2014 Act was to widen participation in the local audit market by allowing local authorities to appoint their own auditors. Once the Act had passed, it became clear that the auditor appointment provisions in the 2014 Act were onerous and there was little appetite amongst local authorities to appoint their own auditors. As a result, MHCLG ran a tender exercise to identify an entity which would act as an appointing person for local authority audits.

2.3.2 PSAA, a new company set up by the Local Government Association (LGA), was the only bidder and accordingly was designated as an appointing person under legislation. Under the transitional arrangements, PSAA was given the responsibility of managing the framework contracts let by the Audit Commission in 2012 and 2014, and during the period to 2017-18 producing a report summarising the results of local authority and NHS audits.

2.3.3 Category 1 Authorities[1] were given the choice of opting in or out of the PSAA arrangements. Most (currently 98%) chose to opt in.

2.3.4 In 2017 PSAA let the new local audit framework contracts, active from the 2018-19 financial year. PSAA's current responsibilities[2] are:

- To perform the functions of an appointing person for local authority audits;
- To take steps to ensure that public money is properly accounted for and protected;
- To oversee the delivery of consistent high quality and effective audit services; and
- To ensure effective management of audit contracts.

More detail on the contracting process and on audit quality is contained in **Chapters 3 and 4** respectively.

The C&AG and the NAO

2.3.5 The C&AG is responsible for laying the Code of Local Audit Practice in Parliament. The C&AG is supported in this work by a small Local Audit Code and Guidance (LACG) team, which is part of the NAO. The LACG team is responsible for the preparation, maintenance and publication of the C&AG's Code of Audit Practice and supporting guidance to auditors. LACG undertakes the full range of activities associated with these responsibilities including:

- providing a point of contact to address significant issues raised by auditors and other stakeholders that may require the update of the Code of Audit Practice or issuing guidance to auditors; and
- facilitating timely engagement with, and advice to, auditors and other stakeholders to facilitate consistency of approach on significant issues – for example, through convening and providing secretariat support to a Local Auditors Advisory Group.

2.3.6 The 2014 Act provides the C&AG with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. The NAO maintains a series of Auditor Guidance Notes (AGNs) to support auditors in their work and facilitate consistency of approach between auditors of the same types of entity. The 2015 Code is supplemented by seven AGNs. These apply equally across local government and the NHS. The AGN on value for money arrangements is supplemented by sector specific supporting information.

2.3.7 The 2014 Act gives the C&AG the responsibility for undertaking value for money investigations on local government. However, the C&AG does not have the power to make recommendations directly to local authorities. This means that when a value for money study finds that one or more local authorities have breached either the letter or the spirit of the statutory framework, the accompanying recommendations must be addressed to MHCLG or Treasury, if they relate to the Public Works Loan Board, as the responsible central government departments.

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[1] "Category 1 authority" means a relevant authority that either— (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

2.3.8 The main roles of the C&AG and the NAO are to support Parliament in holding government to account, through auditing the accounts of government departments and arms-length bodies and undertaking value for money investigations. When the NAO undertook the 2019 study on Local Authority Governance, which included work on local authority audit, the team did not include the Audit Code within the scope of the review. This was to avoid the risk of self-review. As a result, the findings of that report could not take account of an element of the governance framework.

The Financial Reporting Council

2.3.9 The FRC is responsible for issuing standards and guidance to auditors for use in the UK. The suite of standards is known as *International Standards on Auditing (UK)*, and apply equally to audits of local authorities and entities in other sectors.

2.3.10 During the transitional arrangements operating from 2015-16 to 2017-18, the FRC had no formal responsibility for assessing the quality of local authority audit. PSAA took the decision to contract the FRC to undertake six quality assurance reviews of local authority audits, with coverage of at least one from each firm. In practice, the FRC conducted quality assurance reviews of seven audits in both 2016-17 and in 2017-18. This is because the FRC's methodology requires them to re-review all audits that received an unsatisfactory quality assurance review score in the prior year. The results of these quality reviews are discussed in **Chapter 4**.

2.3.11 From 2018-19, the FRC has taken on statutory responsibility for quality assurance reviews of the 230 larger local authority audits. It treats the NHS and local government bodies as a single population and, to maintain equivalence with their coverage of the audit of PIEs, look to cover at least 5% of that population in each year. For 2018-19, the sample included 3 NHS bodies and 12 local authorities. Because some of the audits originally selected for quality review were not complete when the FRCs Audit Quality Review team conducted its fieldwork, these had to be replaced with other audits. The results of the 2018-19 quality assurance reviews are expected to be available in the Autumn of 2020.

2.3.12 The methodology adopted for quality assuring audits in local authority sector is broadly equivalent to that of the Public Interest Entities sector. The review team focuses on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The document review is supplemented by meetings with the audit team and the Chair of the Audit Committee.

2.3.13 Formal client communications are included within the scope of the quality review. However, ongoing liaison between auditors and local authorities would be assessed only if included on the audit file.

2.3.14 Unlike for PIE audits, the FRC does not have the power to fine audit firms if the quality of their local authority audits proves to be deficient. However, all of the firms active in the market indicated that they are very conscious of the reputational damage of a poor rating from the FRC for one of their local authority audits.

2.3.15 FRC is of the view that the perception that it focuses mainly on asset valuations understates the scope of their quality reviews. It also believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of the partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) known as CIPFA/LASAAC to resolve, through modifications to the Accounting Code.

2.3.16 The FRC is in the process of being reconstituted as the Audit Reporting and Governance Authority (ARGA) in line with the recommendations made in the Kingman Review. Sir Donald Brydon also recently published a report that made a number of recommendations to develop corporate auditing as a profession. As the FRC and the Department for Business, Energy & Industrial Strategy (BEIS) consider these recommendations, there is a risk of divergence between the focus and methodologies used to quality assure external audit engagements. Managing this interaction will require ongoing engagement.

ICAEW

2.3.17 The ICAEW has two statutory functions. Since 2015 it has been responsible for maintaining the register of audit firms and Key Audit Partners (KAP) authorised to sign off local authority audits; and since 2018-19 it has been responsible for quality assurance reviews of the 313 smaller local authority audits. The framework for approving firms and partners is tightly controlled by legislation.

2.3.18 Like the FRC, the ICAEW treats local authorities and NHS bodies as a single population for quality assurance review purposes. The 2018-19 quality assurance process is ongoing. ICAEW has selected 15 audits for quality assurance review, split roughly two thirds local government and one third health. The results of this quality assurance review process are not yet available.

2.3.19 Similarly to the FRC, the ICAEW quality assurance reviews focus on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The methodology used to assess the audits of English local authorities is the same as is used to assess audits undertaken by the Auditor General for Wales. This methodology does not require review teams to meet with Audit Committee chairs. As with the FRC, the ICAEW does not have any powers to fine or otherwise sanction auditors whose audits do not meet appropriate quality standards.

2.3.20 ICAEW and the FRC liaise to make sure that all audits fall within one or other of their sample populations and use, broadly, the same quality ratings. Both use well established methodologies to arrive at those ratings.

CIPFA

2.3.21 CIPFA has a dual role. It has been given the statutory responsibility for producing many of the finance related codes of practice that local authorities are required to observe. At the same time, it is a professional institute that represents the majority of accountants working in the local government sector, including most CFOs.

2.3.22 The Accounting Code is prepared by a small secretariat employed by CIPFA who report to the CIPFA/LASAAC Accounting Code Board ("CIPFA/LASAAC"). CIPFA/LASAAC is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom. Its membership primarily comprises accounts preparers representing the different types of authorities in England, Scotland, Wales and Northern Ireland, the Supreme Audit Institutions, and a representative of one of the external audit firms active in the sector in England. The FRC along with representatives of MHCLG and the Scottish, Welsh and Northern Irish governments have observer status on CIPFA/LASAAC.

2.3.23 In England CIPFA/LASAAC is supported by a CIPFA facilitated Local Authority Accounting Panel, which focuses on local government accounting and financial reporting issues and produces guidance for practitioners.

2.3.24 The Accounting Code could be characterised as long and complex. Part of the reason for this is the challenge of writing a Code that covers four countries, each of which has its individual statutory framework with a different set of statutory adjustments and disclosures. In addition to this, CIPFA has taken the decision to draft a highly prescriptive Code that provides detailed guidance on the correct accounting for each class of transactions. An alternative approach would be to draft a principles-based Code, which requires local authorities to comply with generally accepted accounting practice ("GAAP") and only provides detailed guidance where GAAP is adapted or interpreted, specifically for the local authority context. **Chapter 7** covers the accounting framework in more detail.

Assessment of whether an existing body could act as the system leader

2.3.25 The detailed analysis of the bodies responsible for the framework supports the conclusion reached in Sir John Kingman's Independent Review of the Financial Reporting Council:

"*The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks*"[2]

2.3.26 The Kingman Review recommended that the fragmented structure be resolved by designating a single body as the system leader. When asked whether an existing body or a new body would be best placed to take on the role of a system leader, 82% of respondents expressed a preference for a single regulatory body. Many stakeholders who were interviewed also agreed. The other suggestions made were either that the C&AG or the FRC should take the role of system leader.

2.3.27 The C&AG clearly has the relevant experience and expertise to take on such a role. However, taking on responsibility for an element of a framework that is the policy responsibility of a government department could significantly increase the risk of a conflict of interest with the C&AG's main responsibility, which, as already stated, is to hold government departments to account on behalf of Parliament.

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

2.3.28 As the regulator for the audit profession in the UK, the FRC will continue to have an important role in setting standards for all external auditors, including those working in local public audit. However, the FRC's main focus is corporate sector external audit, and to be fully effective the system leader for local public audit will need to demonstrate detailed expertise and a clear focus on that sector.

2.4 Interactions with other inspectorates

2.4.1 There are a number of other inspectorates who cover the local authority sector. Ofsted and the CQC assess the effectiveness of children's services and adult social care respectively in authorities with those statutory responsibilities; HM Inspectorate of the Constabulary and Fire and Rescue Services (HMICFRS) undertakes independent inspections of PCCs and FRAs covering both service delivery and financial planning; the Local Government and Social Care Ombudsman (LGSCO) looks at individual complaints against councils, all adult social care providers in both public and private sector, FRAs, and some other organisations providing local public services; and the Independent Office for Police Conduct performs the same function for PCCs.

2.4.2 Evidence suggests that where a local authority receives an "Inadequate" rating for its children's services, the auditor as a general rule qualifies the value for money conclusion. For example; when PSAA published its summary report on the results of 2017-18 audit work, it listed 32 qualified Value for Money (VfM) opinions; half of these were due to an "inadequate" Ofsted rating[3]. The auditor's value for money conclusion remains qualified until a future Ofsted inspection finds that children's services are no longer "Inadequate". Local authorities questioned the benefits of including Ofsted judgements in the audit report. The circumstances supporting an "inadequate" Ofsted rating are fully explained in a detailed and publicly available report. In the light of this there is a question as to how qualifying the VfM opinion solely for this reason fully reflects the governance arrangements within the authority that could be brought to the attention of elected representatives and other key stakeholders. When asked whether a value for money opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate, 97% of respondents thought that it should not. There is no evidence of reports by other inspectorates leading to modifications to the auditor's opinion.

2.4.3 We have been told by external audit firms and local authorities that external auditors utilise inspectorate reports on a case by case basis. There is little evidence of any additional dialogue between external audit and other inspectorates to discuss inspectorate reports or take into consideration any improvements that a local authority may have made since an inspectorate rating had been issued. This is a change from practice since prior to 2015, where external auditors and inspectorates liaised much more frequently. Whilst external audit firms were broadly in agreement that there should be engagement with inspectorates, many felt that the current arrangements were sufficient.

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[3] Report on the results of auditor's work (Oct 2018) – list of qualified opinions will not include LAs where the 2017-18 audit was concluded after the PSAA report was published.

2.4.4 Whilst recognising that each inspectorate focuses on a different area, there is a question as to whether more liaison may add value. Many examples of service delivery and financial failures are underpinned by weaknesses in governance and senior leadership. Given this, it may be valuable for the auditor or an inspector that has concerns, to find out if those concerns are reflected in other areas of a local authority's business or indicative of wider financial resilience issues.

2.5 The role of MHCLG

2.5.1 The Ministry of Housing, Communities and Local Government (MCHLG) has a statutory role in regulating and monitoring the financing and service delivery of local government. The Accounting Officer within the Department has responsibility for overall expenditure control within local authorities given the funding regime under which the sector operates. In addition, he has policy responsibility for the effective operation of the local authority audit and accounting framework.

2.5.2 Support to the Accounting Officer in fulfilling these responsibilities is split between two directorates:

- Local Government Finance; and
- Local Government and Communities (formerly Local Government Policy)

Local Government Finance

2.5.3 This Directorate covers payments to local authorities through the grant system, has responsibility for business rates and council tax policy, oversees borrowing, capital and fiscal arrangements and is responsible for assessing the financial sustainability of local government. When a local authority experiences financial difficulty, it is the Local Government Finance Directorate that usually leads the government response. It also provides the MHCLG representation on CIPFA's accounting panels.

Local Government and Communities

2.5.4 This Directorate has overall responsibility for MHCLG's local government assurance framework as set out in the Accounting Officer's system statement. Regular advice is given to the Accounting Officer on whether the framework for which he is responsible is operating effectively.

2.5.5 The directorate includes a team that maintains a view of local authorities where concerns exist about financial resilience, service delivery or officer/member conduct issues. In appropriate circumstances this may lead to statutory interventions into local authorities or, alternatively, statutory support. Qualified audit opinions are considered a part of this view.

2.5.6 Another team has responsibility for the local audit policy framework, the 2014 Act and the Accounts and Regulations 2015, managing relationships with PSAA, SAAA, NAO, ICAEW, Institute of Chartered Accountants of Scotland (ICAS) and FRC insofar as their activities relate to the local audit framework and logging Public Interest Reports.

2.5.7 In 2014 the team responsible for local audit set up a Local Audit Delivery Board to support implementation of the 2014 Act. In 2018, it became the Local Audit Monitoring

Board, with revised terms of reference and expanded membership. The Board comprises representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the framework. This Board is a consultative body, that holds meetings in private and has no formal powers or remit.

2.5.8 In viewing these roles from a local authority perspective, it is clear that MHCLG provides a national oversight of the financing of local government, capital and revenue spending, accounting arrangements and financial resilience. This work is substantial and seeks to offer assurance regarding the financial stability of individual local authorities and it includes, within its brief, responsibility for testing adherence to legislation and regulations governing local audit.

2.5.9 The responsibility for regulating local audit sits elsewhere yet MHCLG has a key role in offering assurance about the financial health of local authorities. The intelligence network and information flow relating to accounting and audit reporting on financial sustainability should reach MHCLG in a structured, timely and coordinated fashion. Given the strategic roles that the Department and The Accounting Officer carry it is crucial that systems and procedures are in place to enable this to happen. Clarity, coherence and consistency in fulfilling the Department's role are key to helping to ensure effective local audit.

3. Procurement of local audit

3.1 Statutory framework and eligibility criteria

3.1.1 In order to bid for a local authority audit, both audit firms and every individual responsible for signing off an audit opinion, typically but not always a KAP, needs to be pre-approved either by ICAEW or ICAS. Eligibility criteria are set out in Schedule 5 to the 2014 Act. These criteria stipulate that it is impossible to bid for local authority audits unless both the firm and each nominated KAP has recent experience of undertaking local authority audits. It is difficult for new entrants to enter the local authority market as a consequence of these criteria as audit firms not currently in the market are unable to gain the relative knowledge and expertise that would be required to become a KAP.

3.1.2 Despite the high barriers to entry, since 2016 there has been a 7% increase in the number of KAPs eligible to sign off local authority Audits. Firms active in the market continue to register new KAPs. 39% of KAPs currently registered were not KAPs in 2016, with the firms with a smaller market share being responsible for much of this increase. However, the headline KAP figure is slightly misleading. The number of KAPs has declined by 13% once those who are working for firms who do not currently hold contracts with PSAA are excluded.

Figure 3.1

Number of Key Audit Partners registered with ICAEW

Firm	2016	2020
BDO	5	7
EY	13	16
GT	32	26
Mazars	4	10
KPMG	22	23
Deloitte	6	8
Total KAPs (Firms holding contracts with PSAA)	76*	67*
Cardens	0	1
Moore Stephens	2	0
PWC	12	9
Scott-Moncrieff	0	3
Total KAPs	96	103

** Deloitte did not hold any PSAA contracts in 2016. KMPG does not currently hold any PSAA contracts.*

3.1.3 There is a risk that the Competition and Markets Authority: Statutory Audit Services Market Study[4] recommendation to implement an operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality will further reduce the number of KAPs qualified to sign off local authority audits. KAPs may be responsible for a mixture of external audit, internal audit and consultancy engagements. If required to choose between specialisms, there is, of course, no guarantee that they will opt for external audit.

[4] See Annex 5 for a more detailed analysis of the potential impacts of the CMA, Kingman and Brydon recommendations for local audit.

3.2 The 2017 procurement process

3.2.1 As detailed in **Chapter 2**, PSAA took over the administration of the bulk audit contracts let by the Audit Commission in 2014. These ran from 2015-16 to 2017-18. They comprised five lots let on a regional basis. In 2017 PSAA ran a new procurement to contract for local authority audits for the period 2018-19 to 2022-23.

3.2.2 PSAA chose to split lots by market share rather than on a regional basis. The reason for this was a concern that some regions could prove less popular with bidders than others. They also checked for potential conflicts of interest. Five lots comprising between 40% and 5% of the total market were let, each for a period of five years. No firm could win more than one lot. A sixth lot with no guaranteed work was let, with the aim of providing some resilience in the market.

3.2.3 Local authorities were notified of the lot to which they had been allocated and were given the opportunity to request transfer to a different lot; for example, if they were in a shared service arrangement with an authority in a different lot. Seven local authorities asked for their audit to be transferred to a different lot. Five of these requests were accepted.

3.2.4 Of the nine firms registered to undertake local authority audits seven bid for one or more lots. One firm decided not to bid and a second was excluded from the bidding process by PSAA because it felt the firm was too small to have a realistic chance of submitting a competitive bid.

3.2.5 Assessment of audit firms was split 50:50 between price and quality, compared to the final Audit Commission procurement which was done on a price quality ratio of 60:40. The team assessing quality scores was not given sight of the price each firm had bid. In addition, PSAA asked an ex-District Auditor working for the LGA to quality assure the assessors' quality scores. The assessment of quality was based solely on the tender documents submitted. Past performance was not considered.

3.2.6 One of the firms bid at a much higher price point than the other firms. This generated such a low "price" score that it was effectively impossible for its quality score to make up sufficient difference to win a lot.

3.2.7 Although the headline quality price ratio was 50:50, as highlighted in **Figure 3.2**, many of the questions included in the quality score do not directly relate to factors impacting audit quality.

3.2.8 Four firms bid for the largest two lots (including the firm who priced themselves out of the market); and six for the remaining four lots. Each successful firm was eliminated from consideration for each smaller lot, leaving only two firms from which to choose when awarding Lot 5.

3.2.9 After excluding the firm that priced itself out of the market, the firms awarded the five contracts were those with the highest quality scores. The firm with the highest quality score won the largest lot; the second highest quality score the second highest lot; and there was a marginal difference between the quality scores for the other successful firms.

Figure 3.2: Audit Quality Questions – PSAA tender document

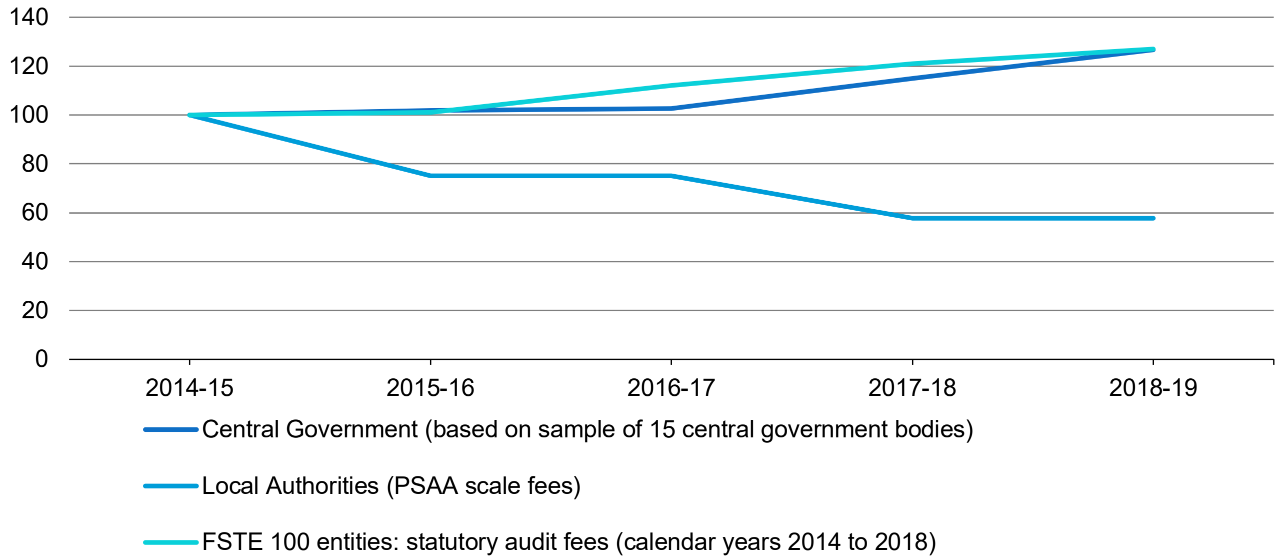
Question number	Question	Weighting	Maximum weighted score
1.1 and 1.2	Confirmation of information in SQ Response; and other declarations; Guarantee (if applicable) and completed, unqualified Form of Tender	N/A	N/A
2.1	Identifying and addressing risks and issues and engaging with different stakeholders	0.5	5
2.2	Continuing professional development	0.2	2
3.1	Providing a clearly articulated audit plan to address the risks identified, and arrangements for carrying out the planned work effectively	1	10
3.2	Information assurance	N/A	N/A
4.1	Quality assurance arrangements to ensure that local audits are undertaken to a consistently high standard	0.6	6
5.1	Schedule of staff	N/A	N/A
5.2	Details of resourcing	0.5	5
5.3	Details and role of Contact Partner	0.3	3
6.1	Selection of a team to work on an individual audit	0.5	5
6.2	Arrangements for discharging statutory reporting responsibilities under the Local Audit and Accountability Act 2014, managing authority and public expectations	0.4	4
7.1	Arrangements to ensure a smooth transition for audits of local government bodies transferring between audit firms	0.5	5
8.1	Opportunities to be commenced and completed	0.3	3
8.2	Other economic, social and environmental initiatives to be undertaken	0.2	2
Overall quality score			50
Price	Ranking of Bid Rate %	1	50%
Overall score (quality and price combined)			

Questions 2.1, 3.1 and 4.1 are direct indicators of quality.

3.2.10 Lot six was designed to provide spare capacity in the market. However, this has not worked as intended, in part because mergers mean that the firm that won Lot 6 no longer exists.

3.2.11 As demonstrated by **Figure 3.3**, audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen. As well as the overall external audit fee paid by the sector declining in cash terms it has also dropped as a percentage of net current expenditure of local authorities, from 0.05% in 2014-15 to 0.04% in 2018-19. Within the sector there are further variations with PCCs and Local Authority Pension Funds typically paying much lower audit fees as a percentage of net expenditure than other types of local authorities.

Figure 3.3
Sector by sector comparison of change in audit fees over time



Notes

1 2014/15 base 100

3.3 Translating bids into audit fees paid by LAs

3.3.1 PSAA told the Review that the scale fee paid by individual LAs under the current contracts has been calculated by taking the total annual fee paid to external auditors under the contract and adding PSAA's margin; comparing the total amount paid to the total amount paid under the 2014 contracting process; and applying the percentage reduction in total amount paid equally across all local authority audits.

3.3.2 The Audit Commission adopted the same approach for allocating fees to individual local authorities when it let the 2012 and 2014 contracts. This means that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.

3.3.3 Since 2010, there have been changes to the major powers and duties of local authorities and to the business environment within which they operate. Individual local authorities will have been impacted by these changes to differing extents. As a result, there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

3.3.4 88% of local authorities who responded to the Call for Views think that the current procurement process does not drive the right balance between cost reduction, quality of work, volume of external auditors and mix of staff undertaking the work.

3.3.5 Audit fees for those local authorities who have opted out of the PSAA arrangements have changed in a way similar to fees for those who have opted in.

3.4 Fee variations and contract management

3.4.1 When an auditor requests a fee variation, this must be agreed by PSAA[5]. In practice, PSAA may challenge fee variations by asking for more information from the firm but expects the auditor and the local authority to come to an agreement as to the additional fee to be paid. PSAA records and monitors this activity. It may also facilitate a conversation between the auditor and local authority in the case of disagreement.

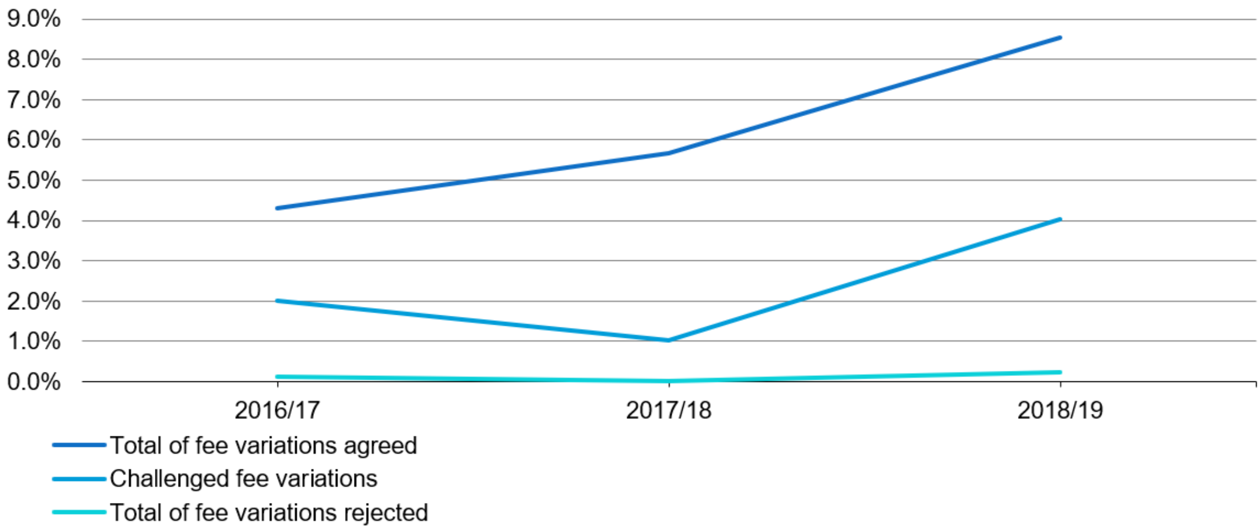
3.4.2 As demonstrated by **Figure 3.4** the number and size of fee variation requests have increased over time. Fee variation requests are often received some months after audits are completed, which means it is difficult to assess the true level of fees paid by the sector. As delayed audits are more likely to generate issues that require more work and thereby attract fee variations, and some firms are not always prompt in submitting fee variations, there are likely to be some requests outstanding relating to 2017-18 and 2018-19 audits.

3.4.3 Audit firms consider the fee variation process to be unsatisfactory. They have raised concerns that the scope to claim fee variations is not sufficient to meet their costs. Increasing the scale fee, to reflect changes in regulatory requirements is for practical purposes not possible under the current arrangements.

3.4.4 The majority of local authorities' representatives who offered a view on fee variations also considered them to be unsatisfactory. A concern, which has been raised by a not insignificant number of authorities, is the fact that fee variation requests are not always supported by any evidence of additional work done. Some local authorities passed examples to the Review of auditors, representing more than one audit firm, refusing to provide evidence to support a requested fee variation.

Figure 3.4

Fee variations as a percentage of total scale fees



Notes

1 Transitional arrangements in 2016-17 & 2017-18, PSAA contract in 2018-19.

2 Some fee variation requests for 2018-19 audits still to be received and agreed.

[5] https://www.psaa.co.uk/wp-content/uploads/2019/12/PSAA-fee-variation-process.pdf

3.4.5 Some local authorities questioned why they have been asked to join a call with a significant number of a firm's technical experts, most of whom do not contribute to the discussion, when they need to resolve technical accounting issues. They have questioned whether the costs of these calls are factored into later fee variation requests.

3.4.6 Fee variations can be submitted at any time which increases uncertainty for local authorities. In addition, some local authorities have claimed that they were led to believe by their auditors that they would refuse to sign off their accounts until they agreed a fee variation.

3.4.7 Finally, some authorities have also claimed that they are being asked to fund the costs of additional audit fieldwork because auditors have not resourced the planned audit visit properly and as a result, need to conduct additional audit testing. It has not been possible to assess whether this is happening or how widespread is the practice.

3.4.8 For the 2019-20 audit cycle, PSAA has taken steps to manage fee variations more proactively. Rather than wait for fee variations to be submitted, PSAA has asked all of the firms active in the market to estimate the additional fee required to ensure that their audit work and audit files meet current quality standards. Four of the firms have suggested that an increase of between 15% to 25% on the scale fee is required with the fifth firm requesting an increase of 100% on the scale fee. PSAA informed local authorities that it expects audit firms to provide fee variation information at the earliest possible opportunity, and that PSAA has emphasised this to the firms in its recent auditor communications. PSAA is currently in the process of reviewing how each firm's standard audit testing programmes have changed over the past three audit cycles to identify whether the increases requested are justified. PSAA will use this work to enable it to provide reassurance to audited bodies that extra work has been validated.

3.4.9 Some local authorities have suggested that PSAA has an incentive to approve fee variations as they are funded through making a margin on audit fees. This is not correct. Because PSAA calculates its margin on a total system cost, it is not possible for local authorities to calculate how much of each audit fee or fee variation is due to PSAA. However, as a not for profit company, PSAA has no incentive to claim more funding than it is entitled to. The company's Articles of Association requires PSAA to return surpluses to the sector. In late 2019, under the transitional arrangement, a distribution of the surplus funds of £3,500,000 (9.3% of the 17-18 scale fee £37.6m) was approved by the Board to be returned to the sector, apportioned between local authorities on a scale fee basis. This might be interpreted as an effective transfer of funds from LAs charged fee variations to those who have not been charged variations.

3.4.10 Some LAs have stated through interviews, that PSAA's role is opaque and that they feel that they have no route to challenge audit fees that they feel are unfair or to raise concerns relating to poor quality or delayed audits. The contract provides no mechanism for individual LAs to complain about the service they receive from their auditors.

3.4.11 PSAA states that its role as defined under statute does not include active contract management and it does not currently have the expertise to do so. However, in the *Local Audit (Appointing Person) Regulations 2015* the additional functions of appointing person include requirements to:

"monitor compliance by a local auditor against the contractual obligations in an audit contract… [and] resolve disputes or complaints from— (aa)local auditors, opted in authorities and local government electors relating to audit contracts and the carrying out of audit work by auditors it has appointed."[6]

3.4.12 During the transitional period implementing the new arrangements (2015-16 to 2017-18), there was a Memorandum of Understanding (MoU) between MHCLG and PSAA, which required PSAA to fulfil its statutory functions. When the MoU expired MHCLG did not renew it.

[6] https://www.legislation.gov.uk/ukdsi/2015/9780111126134

4. Audit performance

4.1 Introduction to local authority audit

4.1.1 Auditors of local authorities provide two audit opinions. These are:

- A financial audit opinion; and
- An opinion on the effectiveness of the systems in place to meet the best value duty (known as the 'value for money' opinion).

Scope of financial audit opinion

4.1.2 The purpose of a financial audit is to form an opinion on a set of financial statements. Financial audits are required to be conducted in accordance with International Standards on Auditing – UK (ISAs). The auditor is required to certify whether the financial statements are free from *material* misstatement and are properly prepared in accordance with the relevant accounting and legislative framework. For local authorities, the relevant accounting framework is the Code of Accounting Practice prepared by CIPFA.

4.1.3 In a local authority context, the audit opinion covers the financial statements, the Collection Fund Account and the Housing Revenue Account. It does not cover the narrative statement or annual governance statement. These are covered by what is known as a 'negative assurance' or 'consistent with' opinion. The auditor is required to read these statements to confirm that there is nothing inconsistent or misleading based on what is reported in the accounts and their understanding of the business. If these statements contain information which is misleading or inconsistent, auditors should insist that the relevant sections are appropriately reworded or removed. If not, no further work is required.

4.1.4 Materiality is a key concept in financial audits. Errors or misstatements are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of the financial statements. Auditors are not required to take account of individual users, but do need to assess them as a group.

4.1.5 Auditors do not test every transaction supporting a set of financial statements. Instead they split the financial statements into groups of transactions with similar characteristics and assess the risks of material misstatement for each. The amount and types of audit testing for each of these areas is informed by this risk assessment.

4.1.6 It therefore follows that the key factors in delivering a quality audit are understanding the needs of the users of the accounts; and undertaking an effective risk assessment informed by a proper awareness of the business.

Scope of value for money opinion

4.1.7 The framework for the value for money opinion is set out in the NAO's Statutory Code of Audit Practice, published in April 2015.[7] ISAs do not apply to VfM audits.

[7] https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

4.1.8 The 2015 Audit Code requires auditors to:
"undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period."

4.1.9 The Audit Code goes on to say:
"Ultimately, it is a matter for the auditor's judgement on the extent of work necessary to support their conclusion on value-for-money arrangements".

4.1.10 The Audit Code requires documentation of the overall conclusion, consideration of risk and of the planned response and work done to address significant risks. If there are no significant risks, the Code does not explicitly require documentation of work done.

Changes introduced by the 2020 Code of Audit Practice

4.1.11 In 2020, the C&AG published a new Code of Local Audit Practice. This is effective from the 2020-21 financial year. The main changes made are in respect of the value for money opinion and supporting work and have been broadly welcomed by auditors and those local authorities who have so far expressed a view.

4.1.12 The binary audit opinion on whether appropriate arrangements are in place has been replaced by a commentary on:

- *Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;*
- *Governance: how the body ensures that it makes informed decisions and properly manages its risks; and*
- *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.*

In addition, the updated Code will explicitly require auditors to document clearly the work that they have done to support their findings.

4.1.13 The consultation on the supplementary statutory guidance issued by the NAO to support the new Code closed on 2 September 2020. Once this guidance is finalised auditors will need to consider the factors including the following:

- whether a revised risk assessment is required;
- how to design an approach that moves away from obtaining evidence to support a binary audit opinion, to one that generates information to support a commentary on the arrangements in place.
- whether additional or different types of audit testing will be required, and how to structure and produce the new narrative reports.

Other statutory duties and powers

4.1.14 In addition, auditors of local authorities have other statutory powers and duties. These are:

- The power to issue a Public Interest Report at any time;
- The power to issue statutory recommendations to management, copied to the Secretary of State;
- The power to issue an advisory notice setting out potential illegal expenditure;
- The power to apply to the Courts to have unlawful expenditure disallowed;
- The duty to consider qualifying whistleblowing disclosures; and
- The duty to respond to objections raised by electors or other relevant persons.

The Audit Code includes guidance on the scenarios that might give rise to use of these powers and duties. Use of the powers along with the work required to support reports, recommendations and responses to objections is a matter of judgement.

4.2 Defining audit quality

4.2.1 Audit quality is a key determinant of audit performance and this must be seen, not only as a measure against agreed standards and principles, but also whether the output of an audit is seen to meet the legitimate expectations of council taxpayers and other users of accounts.

4.2.2 Financial audit is fundamental to these requirements to give assurance to the reader that the accounts are properly prepared and fairly reflect the council's financial position and use of resources.

4.2.3 Value for money audit should be designed to provide the reader with assurance that the systems in place for use of resources in an effective and efficient way are adequate and appropriate, and that the local authority plans will deliver financial resilience in the immediate and medium term.

4.2.4 The effectiveness of audit also depends on the usefulness, impact and timeliness of auditor reporting. Consideration of Public Interest Reports and Statutory Recommendations is relevant here. Finally, the effectiveness of audit also depends on the Authority's response to audit recommendations. This is a wider definition than that currently used by regulators. Ultimately, regulators consider a local authority financial audit to be of acceptable quality if the audit opinion is supported by sufficient and appropriate evidence and if the work complies with auditing standards, relevant legislation and the Code of Audit Practice. As VfM audit is not covered by auditing standards, the regulators focus principally on whether the audit complies with the Code of Audit Practice.

4.2.5 Nevertheless, the effectiveness and usefulness of local audit has to be measured alongside the assessment of quality. The Review has considered the extent to which the auditors of local authorities:

- Meet the contract specification;
- Demonstrate sufficient understanding of the local authority environment through identification and testing of key financial audit and value for money risks;

- Deliver audits in a cost-effective way;
- Make balanced and considered recommendations; and
- Issue reports and make recommendations in timely fashion.

4.3 Assessing Audit Quality

Meeting the Contract Specification

4.3.1 The contract between PSAA and audit firms largely follows standard terms and conditions. It requires providers of audit services to deliver audits in accordance with statutory obligations and appropriate professional standards. These are discussed below.

4.3.2 The contract is supplemented with a Statement of Responsibilities published, on the PSAA website, which is intended to set out the engagement between PSAA and the appointed auditors. The contract requires audit firms to familiarise themselves with this statement. In accompanying text on their website, PSAA makes clear that the responsibilities of auditors are derived from statute, principally, the 2014 Act and from the NAO Code of Audit Practice and nothing in the Statement is meant to vary those responsibilities.

Demonstrating an understanding of the local authority environment

4.3.3 Feedback received from interviews with local authorities is that KAPs tend to be knowledgeable, skilled and experienced. However, the amount of time devoted to the audit has become more limited in recent years. Anecdotal evidence on the accessibility of KAPs varies. Local authorities largely stated that the senior partners were brought in to resolve significant issues, so were not often visible during the course of the audit. This matched many audit firms' comments that senior partners were brought in for the specific and more complex issues. Most local authorities commented that this was reasonable, and as expected, but some felt that it was difficult to secure input from their KAP on specific issues. Some local authorities commented that during 2018-19 audits, the visibility of both the audit team and KAP had declined somewhat compared to prior years.

4.3.4 As demonstrated by the responses in **Figure 4.1,** despite valuing KAPs, many local authorities had a negative opinion of the overall knowledge and expertise of their audit teams. The two areas of particular concern were:

- the knowledge and continuity of working level audit staff; and
- whether audit work always covered the most important areas of the accounts from a financial resilience and service user perspective.

4.3.5 There is a question as to whether external audit could make more use of the knowledge and expertise of internal audit in developing sufficient understanding of the local authority. It is usual for the external audit team to meet the Head of Internal Audit as part of the audit planning process, but it is unclear if liaison extends much beyond that. Internal auditors are likely to be much closer to the business than external audit and, in many authorities, a proportion of their work focuses on governance and service delivery matters. This could make internal audit a rich source of knowledge, should the external audit team wish to use it.

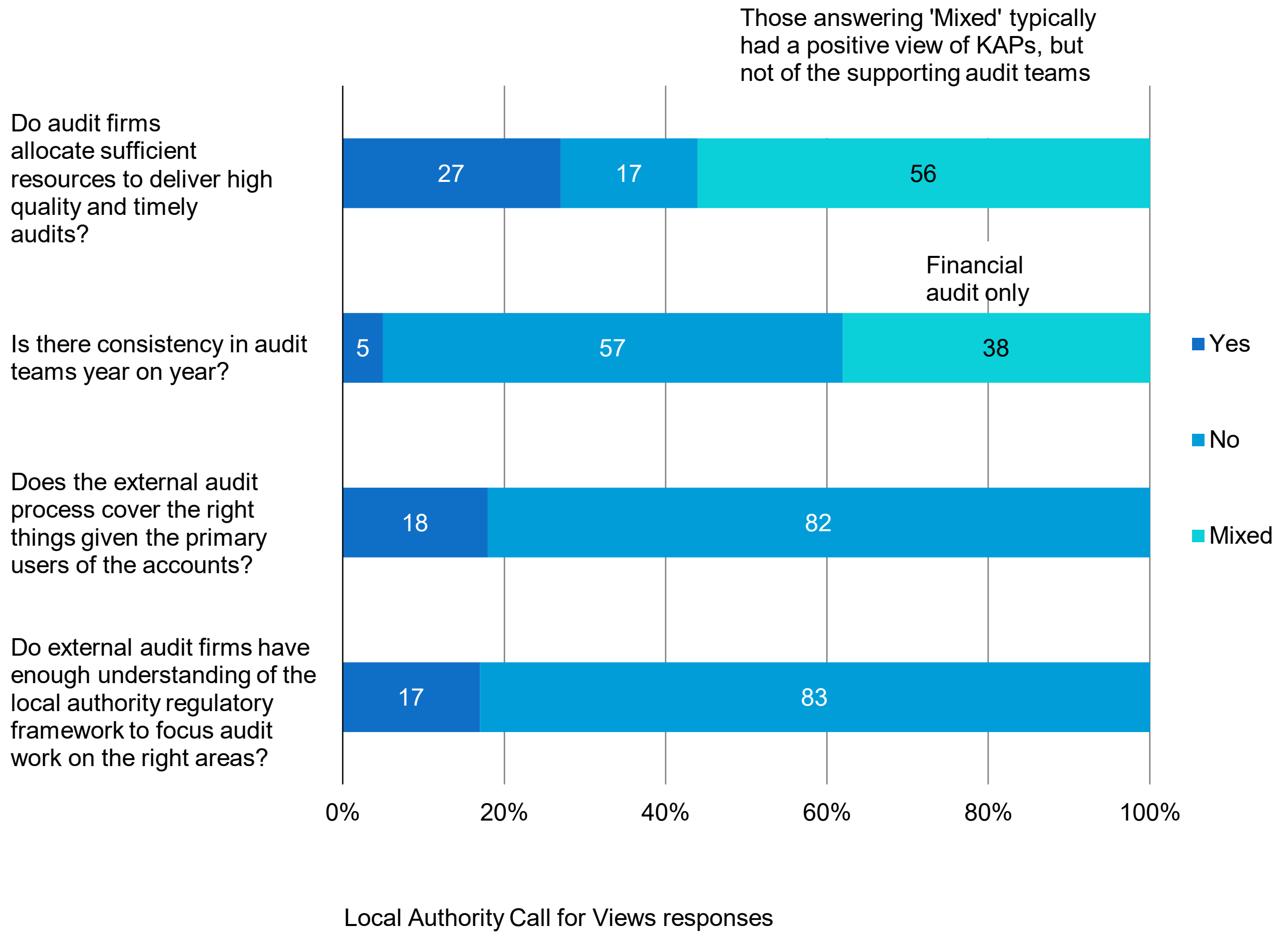
Knowledge, experience and continuity of audit staff

4.3.6 All audit firms active in the local audit market told the Review that they had expert technical teams who provided sector specific training to staff working on local authority audits. Nonetheless, many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit. Issues identified included:

- audit examiners not having a full understanding of how local authorities were funded and how this impacted the accounts;
- a lack of continuity from year to year, or in some cases from week to week, leading to a lack of client knowledge; and
- a lack of understanding of local authority specific financial statements such as the Collection Fund and Housing Revenue Account.

4.3.7 Local authorities also reported the use of audit examiners from other countries to help manage the local audit peak. This is not unique to audits in the local authority sector and can be advantageous as different countries will encounter different audit peaks. However, may local authorities whose audits are staffed in this way reported that such examiners processed very little training in respect of English local government.

Figure 4.1
Opinions on External Audit Quality



4.3.8 Firms agreed that consistency in audit teams could sometimes be compromised by either the difficulty in attracting and retaining quality junior staff or the challenge to retain more experienced staff.

4.3.9 Underpinning the concerns about the quality and continuity of working level audit staff is a concern that there are not enough audit examiners with local authority expertise, and that this is an area in which accountancy trainees no longer wish to specialise.

4.3.10 This is a concern that has developed since 2015. Prior to 2012, the Audit Commission's in-house audit practice, District Audit (DA), was responsible for 70% of the local authority audit market. In its 2012 procurement the Audit Commission outsourced its audit practice. DA staff were TUPE'd[8] to the private sector firms who largely took over responsibility for auditing local authorities. This meant that there was then a plentiful supply of audit examiners with local authority experience. Since 2015, many of those audit examiners have left the external audit profession and have not always been replaced.

4.3.11 A reason for the decline in the number of audit examiners with sector specific expertise is the route taken by auditors to qualify as accountants. Currently, there are five chartered British and Irish professional accountancy bodies that include external audit as a significant element in their qualification. Only one of these bodies (CIPFA) has a mainly public sector focus. All District Audit service trainees would have followed the CIPFA qualification route. Only one of the firms currently active in the market (Grant Thornton) uses the CIPFA qualification route for its public sector audit staff. In addition, audit firms highlight that between 2010 and 2015 the Audit Commission cut back on its recruitment of audit examiners. This means that an increasing number of local authority auditors will not have had the public sector as their main focus whist studying for their accountancy qualification.

4.3.12 In March 2020, PSAA published research it had commissioned on the future of the local audit market.[9] In this research firms raised two main issues that made it difficult for them to attract and retain high quality staff that wanted to specialise in local authority audit:

- **Timetable** - In 2017-18 the target date for completing local authority audits was brought forward from 30 September to 31 July. This reform was requested by many local authorities, who wanted to complete their accounts and audit process as quickly as possible, so as to free up their finance teams to work on other areas. The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.
- **Fees** – Firms stated generally that the lack of profitability changes the way that local audit work is perceived within the firm. As the contribution that local audit makes to the overall profit of the Partnership is low, specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

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[8] TUPE stands for the Transfer of Undertakings (Protection of Employment) Regulations and its purpose is to protect employees if the business in which they are employed changes hands.

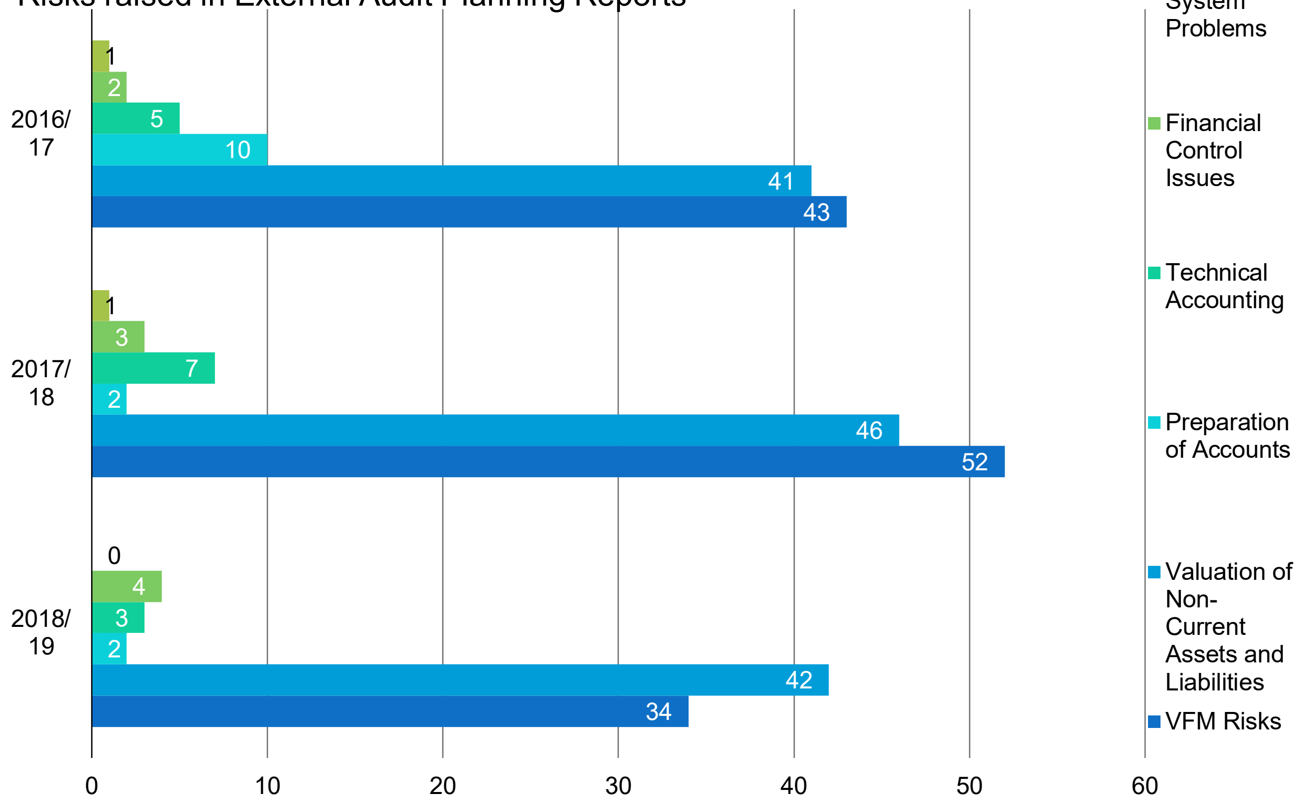
[9] https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Focus of audit work

4.3.13 Many local authorities have raised concerns that auditors spend a significant amount of time focusing on fixed asset and pension valuations, whereas a fuller understanding of the business would lead to more of a focus on major areas of expenditure, together with the level of usable non-ringfenced revenue reserves. The reason for this argument is that most changes to fixed asset and pension values are 'reversed out' of the accounts by a range of statutory adjustments. As a result, in those circumstances, these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority.

Figure 4.2

Risks raised in External Audit Planning Reports



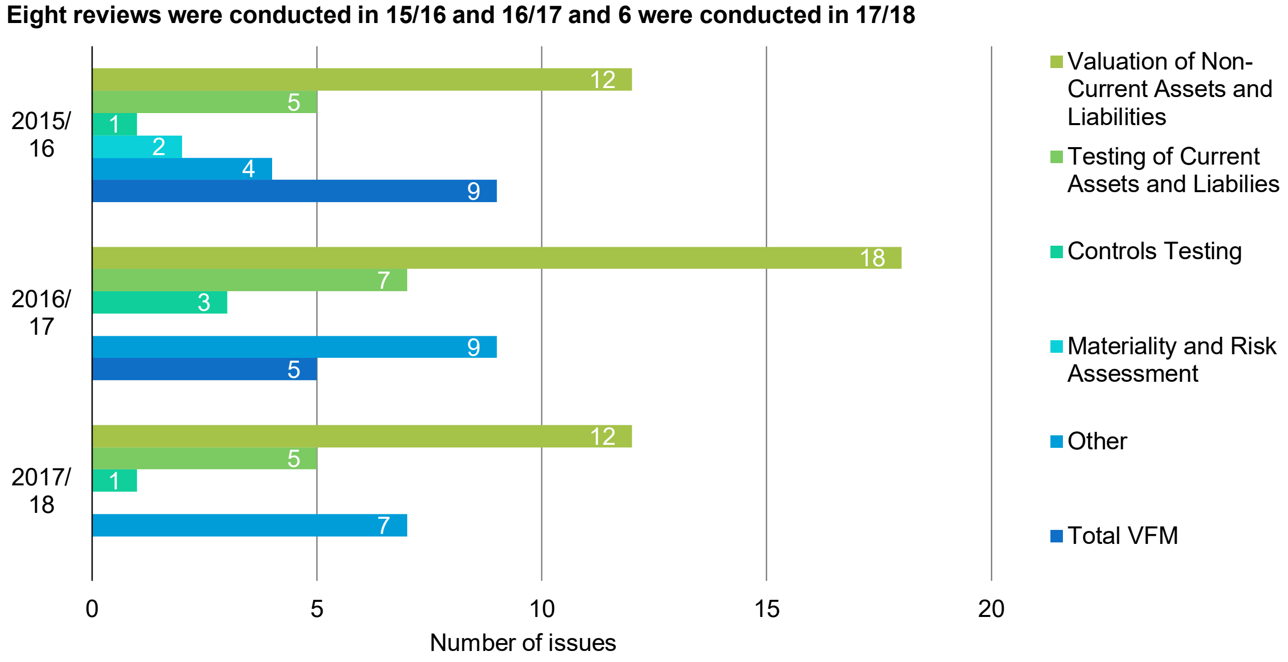
Notes

1 Representative sample of 30 local authorities. Presumed risks excluded

4.3.14 As demonstrated in **Figure 4.2**, valuation of non-current assets and liabilities have been the most common significant financial audit risk category identified in Audit Planning Reports. In addition, irrespective of the risk profile, the amount of detailed testing undertaken on these balances has increased significantly over the past three audit cycles. To manage the risk of regulatory criticism, that more scepticism is needed when assessing non-current assets and liabilities, audit firms are increasingly using their own expert valuers to assess valuations provided by a local authority employed expert. Some audit firms agreed that they would prefer to do less work on asset and pension valuations but explained that these areas of the accounts were given more attention as it was important in the context of securing a positive assessment from the FRC quality assurance processes.

4.3.15 The results of the quality assurance reviews of local authority audit files undertaken between 2015-16 and 2017-18 in **Figure 4.3** demonstrate clear and continuing concerns about the quality of audit work to support fixed asset and pension valuations. The FRC commented that, overall, the local authority audit files it reviewed tended to be of slightly lower quality than the files of corporate sector audits.

Figure 4.3
Issues identified by FRC file reviews conducted on behalf of PSAA



4.3.16 The FRC quality reviews identified far fewer significant issues in VfM audit work. This may be because the current Audit Code gives auditors quite a lot of discretion as to how much work they need to undertake before forming their VfM opinion.

Deliver audits in a cost-effective way

4.3.17 Since 2015, audit fees paid by local authorities have dropped by 42.25% (in cash terms). The decrease in fees has been welcomed by the LGA and by many local authorities. This reduction in fees has been attributed to the following reasons:

- PSAA costs being lower than those of the Audit Commission;
- Improved audit efficiency;
- Reduction in firms' profit expectations; and
- Reduced financial risks for the firms from staff previously TUPEd.

4.3.18 It is difficult to identify the extent to which local authority audits are more efficient than previously. All of the audit firms active in the market have looked to generate efficiencies through making significant investments in digital technology and innovation to equip audit teams with the appropriate tools to deliver a digital audit. However, audit firms note that many local authorities have IT systems that do not lend themselves to the delivery of a digital audit, so some of the anticipated efficiencies have not been realised.

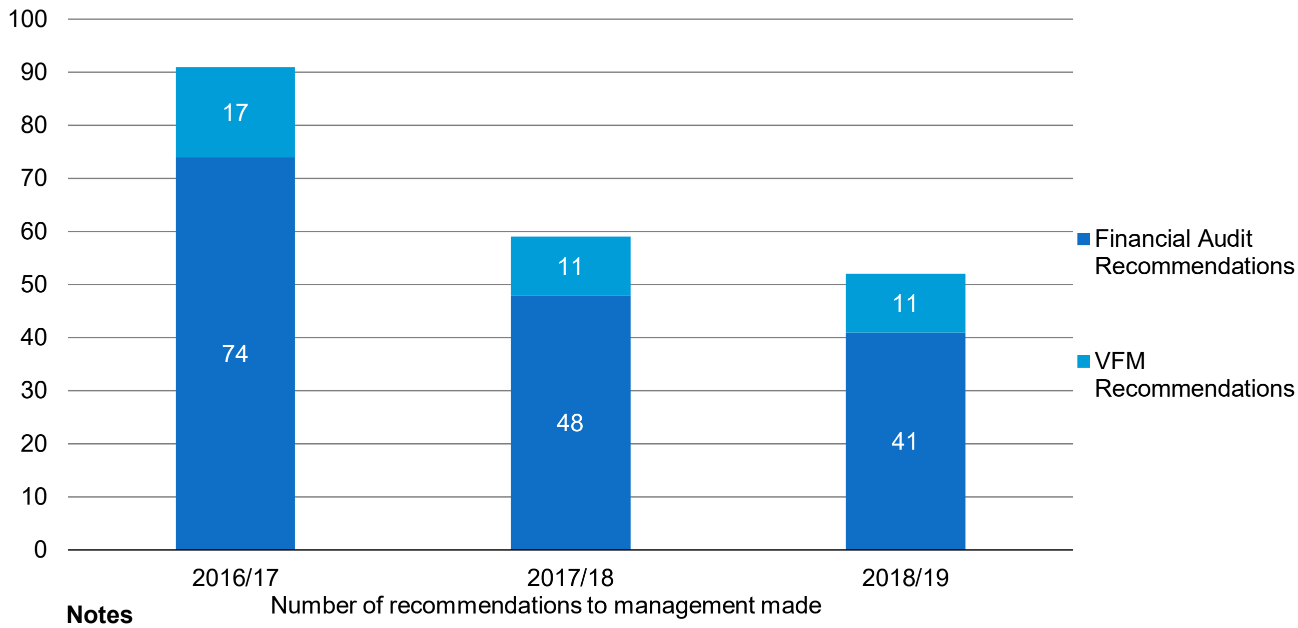
4.3.19 The decrease in fees must be set against the potential impact on quality if audit is considered to be cost effective. Audit firms have raised concerns about whether audit fees are at a sustainable level. One of the registered firms not active in the local authority market said that they had decided not to bid because it was impossible to deliver cost effective and high-quality audits at current fee levels.

4.3.20 Firms have the power to request fee variations where the cost of the work is greater than allowed for by the contract fee. As discussed in **Chapter 3** the fee variation process is an ongoing and increasing source of tension, with auditors concerned that they are not always able to recover legitimate costs. Local authorities are concerned about late notifications and that requested variations are not always supported by evidence of additional work done.

Make sensible recommendations

4.3.21 Auditors can issue recommendations to management through their end of audit communications. These can either be statutory recommendations, which must be copied to the Secretary of State, introduced through the "management letter" recommendations. Eleven statutory recommendations have been issued since 2015.

Figure 4.4
Number of External Audit recommendations given to local authorities



Notes

1 Representative sample of 30 local authorities.

2 Not all audits in 17/18 18/19 have been signed off in this sample.

4.3.22 As demonstrated in **Figure 4.4,** a review of Audit Completion Reports indicates that the number of management letter recommendations issued seems to be declining year on year. The practice on following up management letter recommendations was mixed and Audit Committees were more likely to check progress on implementation of internal audit recommendations rather than external audit recommendations. A majority of the recommendations made relate to technical accounting issues rather than financial control or value for money matters. This is not surprising given the focus of external audit, but it contributes to a perception that the process is not adding as much value as formerly.

Provide useful and timely reports

4.3.23 As demonstrated by **Figure 4.5,** the number of delayed audit opinions has significantly increased over the past three years. For 2018-19, all the audit firms in the market had some outstanding audit opinions as at 30 September 2019, though the extent varied from firm to firm; one firm completed just less than 40% of audits by the deadline while another completed 80%. All firms have made progress in completing these delayed audits although at December 2019, there were still 85 outstanding audit opinions (17.5%); and by July 2020, 42 (8.6%) of 2018-19 audits remained incomplete. These delays are likely to have had a knock-on impact for the 2019-20 timetable.

Figure 4.5

Audit opinions signed off by the statutory deadline for publishing audited accounts

	2018/19	2017/18	2016/17
Opinions issued by the statutory publication deadline	57% *31 July 2019	87% *31 July 2018	95% *30 September 2017
Opinions issued by 30 September	70%	95%	N/A

*statutory deadline for publishing local authority accounts 30 September in 2016-17; and 31 July thereafter.

4.3.24 PSAA asks audit firms to explain the reason for delayed audits. The four most common reasons provided were:

- poor quality accounts/working papers submitted by the local authority;
- potential qualification issues;
- outstanding objections on the accounts; and
- for the first time in 2019-20, having insufficient qualified individuals to deliver all audits at the appropriate time was included as a reason for some of the delays.

4.3.25 Audits are by their nature backwards looking and the increasing delays in signing off local authority audits have an impact on the timeliness of reports. The more material issues that an auditor finds, the greater the risk that the sign off of the audit opinion is delayed. When a judgement needs to be made about modifying an audit opinion, audit firms are required to undertake enhanced quality assurance procedures, and these take time. In addition, some audits will be delayed if a local authority presents poor quality accounts or if there is an outstanding objection. As a result, a number of local authority audits will inevitably be signed off after the reporting deadline.

4.3.26 In recognition of the increased challenges posed by Covid-19, MHCLG has extended the deadline for signing off 2019-20 audits to 30 November 2020. If a majority of audits are not signed off by this date, there could be a significant impact on MHCLG's ability to run the non-domestic rates system effectively. It is too early to say how many local authority audits will make this target date or whether the extension of the deadline will enable audit firms to complete more of the outstanding 2018-19 audits.

4.3.27 Examples of useful and timely auditor reporting through client communications are relatively few. Some local authority Chief Financial Officers commented that they no longer got the useful and informative advice, challenge and support that they had received from KAPs prior to 2015. Audit Planning Reports tend to be presented in February, March or April, which is rather late in the financial year. This means that local authorities get late notification of audit risks. In addition, it is not possible to undertake interim audit work on management controls if the plan is presented in the last month of the financial year and this increases the pressure on the year end peak.

4.3.28 If an Auditor is assessing a significant issue, which they believe needs to be brought to the attention of elected representatives and the public as soon as possible, the have the power to issue a Public Interest Report (PIR). PIRs can be issued at any time. However, only four PIRs have been issued since 2015. Three of these related to matters identified prior to 31 March 2015 and the fourth, issued on 11 August 2020, related to a wholly-owned local authority company.[10] This means that the opportunity to enhance transparency and accountability by sighting key stakeholders on significant issues in a timely fashion is not often used.

4.3.29 Audit firms have not commented on why there is not a greater use of the statutory powers available to them. The position in which auditors find themselves can relate to a situation where intervention in a local authority may be warranted by the use of statutory powers. It is possible that the legal and reputational risks of using these powers may play a part in their thinking as may the difficulty of recovering the costs of the extra work required to support use of these powers.

4.4 Interactions between external audit and relevant stakeholders

4.4.1 The areas of concern that particularly stood out from interviews with local authorities and through the Call for Views were:

- Senior audit staff not being contactable by clients when issues arose;
- Late notification of audit risks;
- Changes to the audit timetable – without justification given;
- Late notification of fee variations with no justification or breakdown of cost given; and
- The auditor's valuation expert overriding asset valuations provided by client experts with equivalent qualifications sometimes with no justification given.

4.4.2 It is important to note that these concerns are not unreciprocated. Auditors raised concerns about LAs not preparing properly prepared draft accounts supported by high quality working papers or not being available to answer audit questions.

4.5 VfM expectation gap

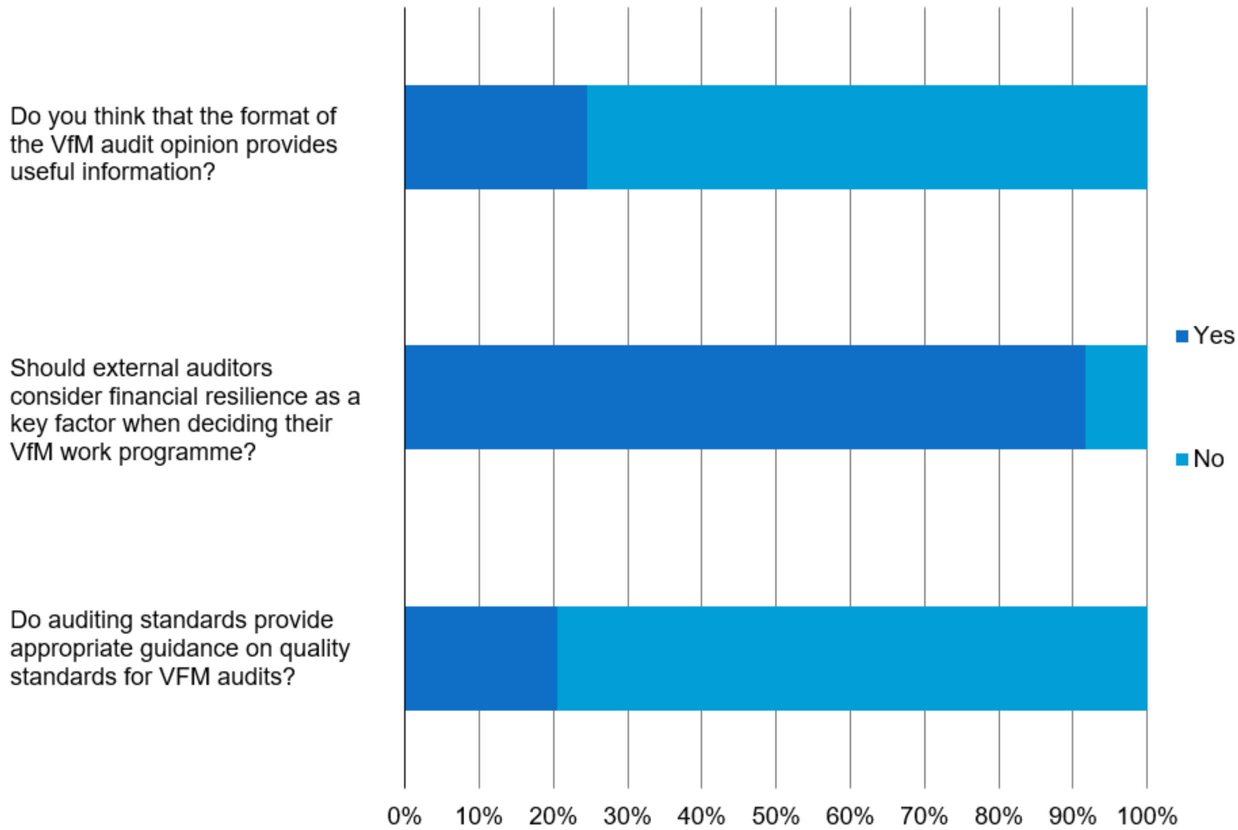
4.5.1 Whilst audit firms feel that the NAO's new code of practice resolves many of the VfM conclusion shortcomings, some local authorities believe that more significant changes need to be made. There is a large expectation gap between what local authorities

[10] https://www.nottinghamcity.gov.uk/publicinterestreport

expect a VfM opinion should provide and what it actually provides. The VfM conclusion is viewed by many local authorities to be an exercise with limited use to them as it is too retrospective and often states what the local authority often already knows. **Chapter 6** includes a more detailed consideration of the extent to which the VfM opinion covers financial resilience risks.

Figure 4.6

Opinions on the VfM opinion and auditing standards



Notes

1 Data from Local Authority Call for Views responses.

4.5.2 As demonstrated in **Figure 4.6**, 74% of the local authority respondents to the Call for Views think the format of the VfM opinion does not provide useful information. Some of these respondents recognised that the opinion is limited to giving assurance only that processes are in place to secure value for money and therefore that the opinion needs to be expanded to provide useful information. 79% of these respondents do not think the standards provide appropriate guidance on quality standards for VfM audits.

4.5.3 91% of respondents think external audit should be required to assess financial resilience. Although 3% of these respondents felt that financial resilience is already covered to an appropriate amount, most of the other respondents thought that financial resilience should be considered in the medium and long term as part of the value for money audit opinion. This included most audit firm respondents to this question, all of whom stated that the updated NAO Code of Audit Practice, effective from 2020-21, would provide a suitable level of coverage. No local authorities specifically mentioned the NAO Code of Audit Practice in their responses, although this may be due to the fact that the updated Audit Code had not been finalised at the time the Call for Views closed. However, 16% of local authority respondents thought the non-statutory CIPFA Financial Management Code (published Oct 2019) could provide a suitable framework for assessing financial resilience and financial management.

4.6 Summary of audit performance

4.6.1 There is an expectation gap that extends across both the financial and the VfM audit. The coverage of the financial and VfM audits is far narrower than many stakeholders expect.

4.6.2 There are questions about the level of audit performance. In addition, although external auditors may be meeting the contract specification by delivering audits that, for the most part, meet the quality standards set out in ISAs and the Audit Code, an increasing number of audits are not being completed by the statutory deadline for publishing audited accounts.

4.6.3 Audit fees paid by local authorities have reduced, whereas, over the same period, they have increased in other sectors. There is some evidence that the reduction in fees has led to a decline in the number of examiners with appropriate skills, knowledge and expertise. This has had an impact on the timeliness of audits, the usefulness of auditor reporting to management and the quality of interactions between external auditors and local authorities.

4.6.4 Underpinning concerns about audit performance is a question of focus. There is a perception amongst many local authorities that an increasing amount of time is spent auditing fixed asset and pension valuations. It is clear that external audit increasingly has a greater focus on these areas, and that this has been driven by the requirement to meet quality standards and comply with relevant statutory guidance. What is less clear is the extent to which this has led to a reduction of audit work in other areas, but given the reduction in audit fees, it is likely to have had some impact.

4.6.5 It is more difficult to summarise audit performance in relation to the VfM engagement. This is partly because the 2015 Audit Code requires minimal documentation unless significant VfM risks are identified. This makes it impossible to assess whether the external audit assessment of VfM risks is complete in all cases. However, given the squeeze on audit fees and the reduction in the number of audit examiners with appropriate skills, knowledge and expertise, this remains a matter of significant concern.

5. Governance arrangements in place for responding to audit recommendations

5.1 Outline of the different frameworks in operation

5.1.1 The effectiveness of audit must, in part, be determined by the arrangements in place within each body subject to audit for considering and acting upon external audit reports. All local authorities are required to set up Audit Committees or the equivalent with responsibility for considering the annual accounts and receiving internal and external audit plans and reports. The specific arrangements vary between different types of local authorities. However, the purpose of an Audit Committee is to provide independent challenge on behalf of the authority in respect of accountability and risk management arrangements.

Arrangements within PCCs

5.1.2 A PCC is an elected official charged with securing efficient and effective policing of a police area. The policing function is delivered by the constabulary, led in large part by Chief Constables. PCCs are required to set up Joint Audit Committees covering the activities of both the PCC and the constabulary. These arrangements appear to work effectively and the findings and conclusions in the rest of this Chapter do not apply to PCCs.

5.1.3 Some PCCs also have responsibility for overseeing the delivery of Fire and Rescue Authorities, which deliver the fire service, in their local area. In other areas, primarily Shire Counties, the fire service is the responsibility of the County Council.

Arrangements within other types of local authorities

5.1.4 Mayoral Combined Authorities[11] are required by statute to have an Audit Committee, although there is no statutory guidance on the membership or remit. Whilst not a requirement for other types of local authorities, in practice most have set up an Audit Committee or equivalent.

5.1.5 Constitutionally, Audit Committees in local authorities are sub-committees of Full Council. This means that a majority of its members will be elected as a councillor or its equivalent. As highlighted in **Figure 5.1,** membership tends to be based on the political balance of the council and the chair is often, but not always, a member of the ruling group.

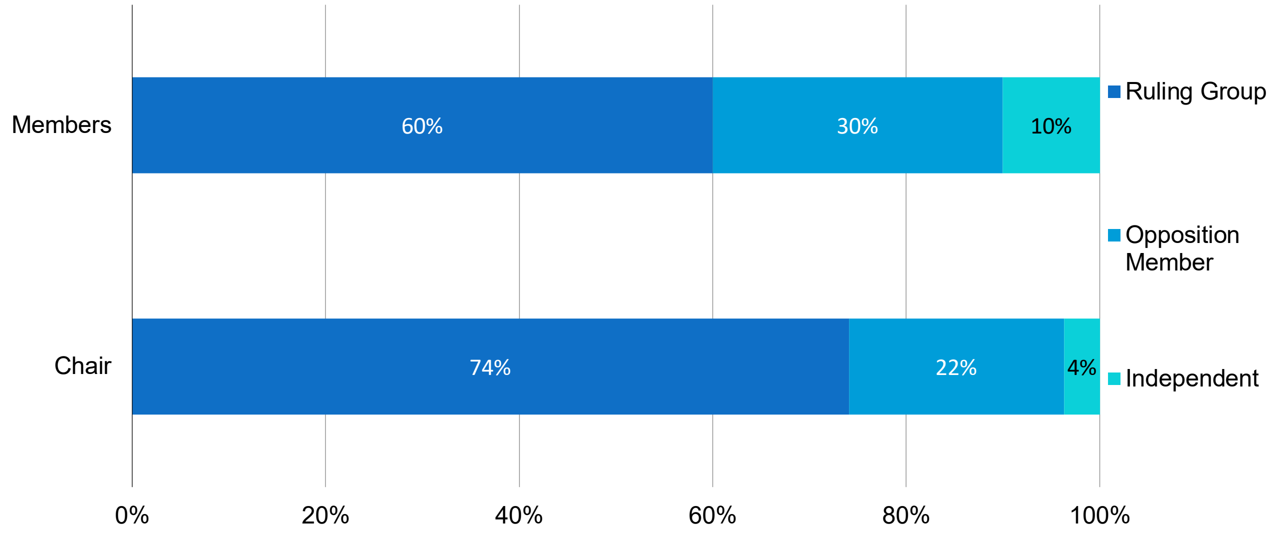
5.1.6 The number of members of Audit Committees varies from four to seventeen, with seven being the most common. This compares to common practice in central government and the private sector, which is to have no more than three or four Audit Committee members. The size of the committee might vary according to the number of councillors an authority has; however, Birmingham City Council, which by expenditure is the largest local authority and has more councillors (99) than any other local authority in England, has eight members on its Audit Committee, whereas the

[11] Combined Authorities are statutory bodies made up of neighbouring local authorities that broadly cover a city-region that have agreed to work together. A Mayoral Combined Authority is where a mayor is the directly elected leader of the combined authority.

Audit Committees of some Shire District Councils have memberships that far exceed this.

Figure 5.1
Composition of audit committees in councils

56% of committees had no independent members



Notes

1 Representative sample of 27 Local Authority Committees (not including FRAs or PCCs).

5.1.7 Local authority accounts are very complex and there appears to be a significant difference between the assurance that external auditors provide and public expectations. Elected members may or may not have relevant skills, expertise or background to fulfil the role of a member of an Audit Committee. Many local authorities provide training for Audit Committee members, but it has not been possible to assess how comprehensive or effective this training is. As a result, it is not possible to conclude whether members are always equipped to provide effective challenge to Auditors or Statutory Officers.

5.1.8 As part of its Audit Quality Reviews of 2018-19 audits, the FRC review teams have met with Audit Committee chairs of 12 selected local authorities. Although the reviews of the related audits are not yet publicly available, a mixed picture was reported, with some chairs being very engaged and informed, but others being less so. As the FRC is responsible only for the quality assurance reviews of the 230 larger local authorities and NHS bodies, the experience provided by their quality reviews may not be fully representative of the sector.

5.1.9 Whilst the vast majority of local authorities interviewed were supportive of the principle of appointing independent members, only about 40% of Audit Committees currently have done so. The reported experience of having independent members on Audit Committees was mixed. In some cases, they provided useful challenge, but some authorities reported that the effectiveness of independent members was hampered by their lack of sector specific knowledge.

5.1.10 A particular challenge for authorities is attracting independent members with the relevant technical experience. This challenge can sometimes be greater depending on an authority's geographical location. Some PCCs have found that the introduction of Joint Audit Committees, which are seen as more prestigious, has made Audit Committee membership more attractive to appropriately qualified independent members, but there is still not an abundance of suitable applicants for vacant positions.

5.1.11 The independent member is often a voluntary position across the local authority sector. This compares to NHS trusts who are more likely to pay independent Audit Committee members, which may make it slightly easier for them to attract applicants with relevant expertise.

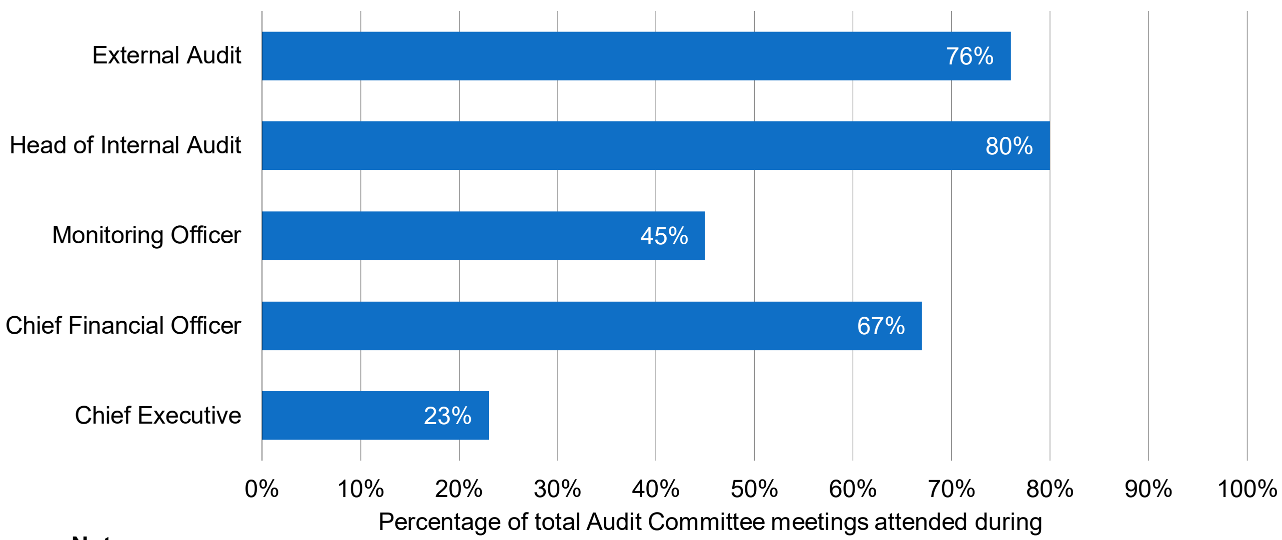
5.1.12 Local authorities have a number of statutory officers, three of whom have responsibilities that may be covered by audit work. They are:

- The **Head of Paid Service** – typically the Chief Executive or Managing Director
- The **Section 151 Officer** – typically the Chief Financial Officer or Finance Director
- The **Monitoring Officer** – typically the Head of Legal Services

5.1.13 As demonstrated by **Figure 5.2** the frequency of attendance of statutory officers at Audit Committee meetings is mixed. Whilst the Chief Financial Officer and Head of Internal Audit attend a majority of meetings, Monitoring Officers attend just under half of the meetings and the Chief Executive attends such meetings less often. Other statutory officers and service heads usually attend Audit Committee meetings if a matter relevant to their service area is discussed.

5.1.14 The Chief Financial Officer is more likely to attend meetings where external audit completion reports are presented. Attendance of the Chief Executive increased by 2% and the Monitoring Officer attendance decreased. This may be reflective of the fact that in local government, the Chief Financial Officer signs the accounts on behalf of the local authority, or it may be indicative of the profile of external audit.

Figure 5.2
Audit Committee attendance: Local Authority Officers and External Audit Representative



Notes

1 Representative sample of 30 local authorities

5.1.15 In local government, representatives of external audit are not expected to attend every Audit Committee meeting. Based on a representative sample, the KAP attended 56% of meetings, rising to 87% of meetings where either external audit papers were tabled or where the final accounts were presented. For the 13% of these meetings where the KAP was not in attendance, external audit was represented by a less senior member of the audit team.

5.2 Scope of audit committees within local government

5.2.1 The scope of Audit Committees also varied between authorities. CIPFA's *Position Statement and supporting guidance on Audit Committees (2013)* says that the Audit Committee should cover:

- The annual governance statement
- The work of internal audit
- Risk management
- Assurance framework and assurance planning
- Value for money and best value
- Countering fraud and corruption
- External audit
- Partnership governance

and may also cover:

- Specific matters at the request of statutory officers or other committees
- Ethical values
- Treasury management

5.2.2 Most of the committees reviewed covered most of the items in the CIPFA position statement. There were two areas which had either minimal or no specific coverage: *partnership governance,* which was considered by only two of the 30 authorities reviewed; and *value for money and best value* which was not considered by any of those 30 authorities. The *CIPFA Survey on Local Authority Audit Committees* (November 2016) also found that Audit Committees were much less likely to consider these two areas. However, the scope of Audit Committees in local authorities is not limited to the areas suggested in the CIPFA guidance.

5.2.3 The scope of committees whose responsibilities included audit varied. The second most common name, after the 'Audit Committee' itself was a name which indicated the combining of audit with the functions of an overview and scrutiny committee. Overview and scrutiny committees are required by statute[12] and are responsible for overseeing and scrutinising the whole range of the Council's functions and responsibilities, as well as other public service providers' work and its impact on the local community. Whilst the functions of these two committees have some synergy, there is a question as to whether it enables the audit responsibilities to be fully addressed.

5.2.4 In one example a local authority had set up an Audit, Resources and Performance Committee. This is a significant concern because the prime purpose of an Audit

[12] Schedule 2, Localism Act 2011

Committee is to review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. The Resources Committee will use financial projections and risk management information to take decisions about use of resources. If the same committee is responsible for using information to take management decisions and providing independent assurance over the reliability of that information, there is no effective segregation of duties. There is also a potential for conflicts of interest.

5.3 Relationship between Audit Committees and Full Council or equivalent

5.3.1 Full Council has a role, ultimately, in responding to audit matters that is beyond receiving Public Interest Reports or qualified audit opinions. Full Council is generally more visible to the public than committees/subcommittees. The Council's public accountability to local taxpayers and service users is best served by having significant matters relating to audit discussed in a transparent and accessible way.

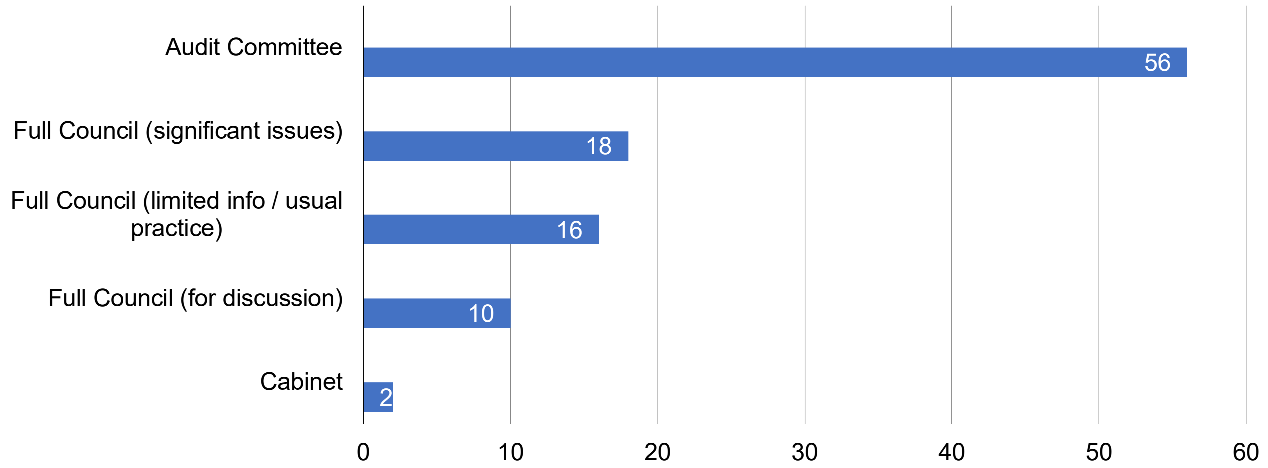
5.3.2 Matters raised at Audit Committee can be referred to Full Council. In addition, the auditor has the power to present some statements, for example an advisory notice that planned expenditure may be unlawful, directly to Full Council.

5.3.3 In practice the auditor tends to present matters to the Audit Committee, which decides if a matter is serious enough to be referred to Full Council. Most local authorities feel that this arrangement is appropriate. It is rare for an Audit Committee to put a substantive item onto the Full Council's agenda. The exception is the Treasury Management Strategy, where some local authorities have a practice of ensuring that it is considered by the Audit Committee before being forwarded to Full Council for approval.

5.3.4 Many local authorities stated that the existing relationship between Audit Committee and Full Council involved either forwarding for information a yearly summary report or meeting minutes and that this was considered to be sufficient. Many also commented that if there were significant recommendations made by the external auditor, such as a Public Interest Report, that then should be a matter for Full Council.

5.3.5 In some cases, some quite serious matters seem not to have been passed onto Full Council. For example, the 'best value' report into Northamptonshire County Council found that when the external auditor reported that appropriate arrangements to deliver best value outcomes were not in place, for the second year in succession, there is no evidence that the Audit Committee forwarded the qualified audit opinion to Full Council.

Figure 5.3
To whom should external auditors present audit reports and findings?



Notes

1 92% of local authorities respondents answered this Call for Views question

5.3.6 If this practice is widespread, there is a significant risk that in many councils, a majority of elected members may not be sighted on serious governance or financial resilience issues. This risk does not fully pertain to PCCs, where the PCC and Chief Constable are expected to attend the Joint Audit Committee and generally do so. There is a question as to whether Audit Committees, including Joint Audit Committees, are sufficiently transparent to local taxpayers and service users. Whilst by default, proceedings of these committees are public, it is not clear that taxpayers and service users are aware that they have a right to attend or to read the papers and the minutes.

5.3.7 As demonstrated in **Figure 5.3** most local authorities felt that external audit reports should be presented to the Audit Committee rather than to Full Council. Reasons given included:

- Full Council only taking items for decision;
- elected members not having the skills, knowledge or experience to understand the report unless they had received Audit Committee training.

5.3.8 Many commented that external audit reports should be reported to Full Council only in exceptional circumstances where there is significant cause for concern. One respondent commented that given the target dates and tight deadlines, there is insufficient time to report to Full Council prior to sign off of the accounts by the external auditors.

Raising the profile of external audit work

5.3.9 The content of the standard suite of external audit reports is mandated by auditing standards. Whilst audit firms have made significant strides in making reports more accessible to clients, much of the required disclosure is highly technical. Given this, it is perhaps understandable that many local authorities do not present such documents to Full Council.

5.3.10 Nevertheless, external auditors may have insights from their work, that could provide assurance to Elected Representatives that their local authority is being run with the best interests of service users and taxpayers in mind. The auditor also has the facility to sight elected representatives on matters that audit work has highlighted as a potential issue.

5.3.11 This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely. Given the increase in the number of delayed audits, this report should not necessarily be linked to the certification of the financial accounts as it should be made at the most useful point in the year. Comparatively few local authorities commented on what was the right point in the year to receive audit reports. Two thirds of those who did, expressed a preference for end-September, coming as it does near the start of the following year's annual budget setting planning cycle.

Collating the results of external audit work

5.3.12 Prior to 2015, the Audit Commission published an annual report summarising the results of the audits of local authorities and the NHS. Up to the end of 2017-18 responsibility for preparing this report passed to PSAA. The report summarised the number of audits completed by the statutory deadline and the number of qualified financial audit and value for money opinions, with the latter categorised by theme. It also listed all Public Interest Reports, Statutory Recommendations and Advisory Notices issued in the preceding year. It did not include any details on risks raised by auditors in their Audit Planning Reports or non-statutory recommendations made to local authorities. Just over two thirds of Call for Views respondents think a publication summarising the results of local authority audits adds value.

5.3.13 The responsibility for preparing this report was included in the Memorandum of Understanding between PSAA and MHCLG. When MHCLG decided not to renew the Memorandum of Understanding, PSAA's responsibility for reporting on the results of audit work lapsed. This reinforces the point that no entity currently has the responsibility to collate and report on the results of the work of the external auditors of local authorities and individual NHS bodies.

6 Audit work on the financial resilience of local authorities

6.1 Stakeholders' expectations regarding financial resilience

6.1.1 Reference has been made to the role of external audit in assessing financial resilience and sustainability in local authorities. In England, neither the financial nor the value for money audit includes a specific responsibility to provide an opinion on whether a local authority is financially sustainable.

6.1.2 However, it is legitimate to expect the auditor to examine the ability of the local authority to provide resources sufficient to deliver the statutory services for which it is responsible. It would not be appropriate for this Review to provide a commentary on local government funding, but there are a number of key questions that it would be reasonable to expect the auditor to assess. These could include:

- Has the auditor scrutinised the balance sheet to understand the debt profile of the authority and the level and depletion rate of usable reserves?
- What metrics does the authority use to determine the level of financial risk it faces?
- When the annual budget is approved by Full Council or equivalent, the CFO is required to present a "Section 25" report, providing a view on the reasonableness of financial estimates and the adequacy of reserves. Should the auditor be required to confirm that this report is sound?
- It is good practice for local authorities to prepare a mid-term financial strategy, normally covering a three to five-year period that is presented alongside the budget. Is it reasonable to expect the auditor to consider the assumptions underpinning this strategy or to form a view on its whether it is robust and realistic?
- Local authorities are also required to prepare statutory reports that have implications for financial sustainability and available resources in future years. These include setting a Prudential Borrowing limit, calculating an appropriate provision for repayment of debt (known as "Minimum Revenue Provision"), preparing an Investment Strategy, and potentially preparing a Flexible Use of Capital Receipts Strategy. Is it reasonable to expect the auditor to consider some of these strategies and estimates?

6.1.3 CFOs may have specific expectations of auditors. As previously indicated, many of the CFOs who contacted the Review made it clear that they valued the informal contact and challenge from the KAP. Dialogue between the KAP and the CFO does take place, if not on as wide a scale as it did pre-2015, and there is no doubt this can be beneficial. However, the independence of the auditor must be preserved in the way that advice and guidance may be tendered.

6.2 What does financial resilience mean in a local authority context?

The statutory framework

6.2.1 Financial resilience in a local authority is different to a private sector context. The powers and responsibilities of local authorities along with the financial control framework within which they operate are set by statute.

6.2.2 The services that local authorities are required to provide are set out in legislation along with the accompanying powers and duties. The statutory responsibilities to deliver these services exist even if the local authority's resources may be considered to be insufficient at any given time.

6.2.3 The key financial controls set out in statute are:

- The requirement to calculate an **annual balanced revenue budget** for the upcoming financial year, that must be approved by Full Council or the equivalent. Local authorities are not allowed to run a deficit budget. Instead they are required to calculate a level of Council Tax that equates to the difference between income and expenditure. The increase in the level of Council Tax that can be charged is restricted by a 'referendum principle'. If a local authority wishes to raise Council Tax by more than a percentage specified by Ministers, they are required to put the planned increase to a referendum of local electors. Local authorities can borrow to fund capital investment but are not normally allowed to do so to finance in-year expenditure.
- The CFO's **"Section 25" report** on the robustness of the council's budget estimates and the adequacy of its reserves, which must be presented to Full Council alongside the annual balanced budget.
- The CFO has the power to issue a **"Section 114 notice"** if the CFO believes that the local authority is unable to set or maintain a balanced budget. After a section 114 notice is issued, the local authority may not incur new expenditure commitments, and the Full Council must meet within 21 days to discuss the report. There is no legal provision regarding what action they then must take. There is no procedure in law for a UK local authority to go bankrupt, and none has ever done so.

6.2.4 If a local authority mismanages its budgets over a number of years so that it is unable to recover its financial position, then central government has the choice of intervening under its "best value" powers, providing exceptional financial support, facilitating an offer of leadership and governance support from elsewhere in the sector, or using a mixture of these options.

6.2.5 Intervention on the grounds of lack of financial resilience is very rare. The most recent statutory intervention using best value powers was in Northamptonshire in 2018. Although there have been three other statutory interventions in the intervening years (Doncaster due to pervasive corporate governance failures, Rotherham due to institutional failure in responding to child sexual abuse and Tower Hamlets due to pervasive governance and financial impropriety issues), Northamptonshire was the first statutory intervention primarily due to financial resilience issues since Hackney in 2000.

6.2.6 In both Northamptonshire and Hackney, central government supported the council during the intervention by providing exceptional financial support, primarily by allowing receipts from sale of assets to be used to support revenue expenditure. Northamptonshire was also permitted to raise council tax by 2% more than other authorities for 2019-20 without triggering a referendum.

6.2.7 Whilst this might suggest that financial resilience is not an issue for local authorities, that may not always be the case. Firstly, central government support cannot always be guaranteed and secondly, a local authority experiencing severe financial resilience issues may also be facing governance and service delivery issues, with a consequential impact on those who depend on those services. Furthermore, the impact of financial resilience issues on service delivery is iterative. It must be emphasised here that the system must identify and highlight financial resilience issues at the earliest opportunity in order to avoid negative impact on service. When a service fails, it is likely that that cost of recovery will be greater with a possible consequential impact on financial resilience.

6.2.8 This suggests that in a local authority context, financial resilience means the ability to manage budgets over the medium term whilst continuing to deliver high quality and effective services, that can be accessed by service users. The level of service provided is very important. Local authorities in financial difficulties can seek to cut costs by reducing the level of service. This may be the case for demand led services such as social care where it is more difficult to forecast accurately local demand pressure.

Commercialisation and local authority resilience

6.2.9 One of the most significant sectoral trends since 2015 is the increased commercialisation of local authorities. To simplify, there are two main categories of local authority commercialisation:

- Investment in commercial property, usually through the general fund; and
- Investment in wholly owned companies set up using the "general power of competence". The most common type of wholly owned local authority company is the housing company. Other examples identified include energy companies, recruitment agencies, back office service delivery companies and leisure trusts. PCCs and FRAs do not have a "general power of competence".

6.2.10 The risks commercialisation poses to local authority financial resilience were highlighted in a recent NAO study on *"Local Authority Investment in Commercial Property"*[13] which concluded:

"Buying commercial property can deliver benefits for Local Authorities including both the generation of income and local regeneration. However, as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs or may become significantly dependent on commercial property income to support services. At the national or regional level, Local Authority activity could have an inflationary effect on the market or crowd out private sector investment."

6.2.11 Although the NAO study focused solely on commercial property, this conclusion is as relevant to investments in wholly owned companies. If a company that is set up using the "general power of competence" gets into difficulty, the parent local authority may ultimately be responsible or may have to write off loans or equity funding, and this can impact financial resilience.

6.2.12 An additional risk with wholly owned companies is a potential lack of transparency. It can be very difficult for a reader to identify a local authority's exposure as a result of

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[13] https://www.nao.org.uk/wp-content/uploads/2020/02/Local-authority-investment-in-commercial-property.pdf

investments in or loans to wholly owned companies by looking at the accounts. Unless an investment in, or transactions with, a wholly owned company is material by value, there is no requirement to consolidate the company's income, expenditure, assets or liabilities in the local authority's accounts. Instead, what is required is a disclosure of transactions between the authority and each of its wholly owned companies in what is known as the "Related Parties note". This note is presented less prominently in the annual report and accounts document. In addition, decisions a local authority makes pertaining to its wholly owned companies, including those relating to providing additional finance and awarding contracts, are often held in private on grounds of commercial confidentiality.

Defining local authority financial resilience

6.2.13 CIPFA has attempted to define financial resilience in a local authority context. In *Building Financial Resilience (Jun 2017)*[14]. This publication highlights four pillars of sound financial management and five indicators of financial stress.

Figure 6.1

CIPFA Pillars of Financial Resilience

Pillars of financial resilience	Indicators of financial stress
Getting routine financial management right	Running down reserves
Benchmarking against nearest neighbours – e.g. unit costs, under/overspends by service area, under-recovery of income.	Failure to deliver planned savings
	Shortening medium term financial planning horizons
Clear plans for delivering savings	Increase gaps in saving plans (i.e. where proposals are still to be identified)
Managing reserves over the medium-term financial planning horizon.	Increase unplanned overspends in service delivery departments.

6.2.14 The pillars of financial resilience identified by CIPFA related to process and governance points, so could be covered by the auditor's VfM opinion. Likewise, the indicators of financial stress could be covered by a sector-wide VfM audit framework.

6.2.15 An alternative and more detailed model, mentioned by some local authorities, is the seventeen principles set out in CIPFA's recently published Financial Management Code. Although only three of the seventeen principles are categorised under the heading of sustainability, in practice, all of the principles relate to matters that directly or indirectly contribute to an authority's capacity and capability to deliver sustainable services over the medium term.

6.2.16 A challenge common to both the *Pillars of Financial Resilience* and the *Financial Management Code* is that neither has any statutory basis. Whilst CIPFA requires its members to follow the *Financial Management Code*, compliance cannot be enforced. As a result, auditors may be reluctant to treat non-compliance with either as a matter serious enough on which to report.

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[14] https://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities

6.2.17 A further challenge with the *Financial Management Code* is that the key principles are fairly detailed. Whilst an auditor could assess compliance with these principles, the costs of doing so in terms of both the auditor and of local authority time could be quite high.

6.2.18 Finally, neither the *Pillars* nor the *Financial Management Code* explicitly cover the impact of commercial activity on a local authority's financial resilience. General fund investments should be considered as part of the audit of financial accounts but wholly owned companies would only be considered if material enough to be consolidated into the accounts.

6.3 Current audit requirements to assess the sustainability and resilience of LAs in England

The Going Concern opinion

6.3.1 An underpinning principle of a financial audit is a 'going concern assumption'. The going concern principle means that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. When an auditor conducts the examination of the accounts, there is an obligation to review its ability to continue as a going concern for the next twelve months.

6.3.2 If the auditor concludes that there is significant doubt that the reporting entity is a going concern, the audit opinion is qualified, and a report explaining the auditor's financial resilience concerns is included with the audit opinion. In addition, if an entity is not a going concern, assets and liabilities must be valued at the amount they can be sold for rather than by assessing their ongoing value to the entity.

6.3.3 This particular way of validating a local authority's financial health has attracted much criticism from respondents. The view of practitioners is that that a local authority cannot face the prospect of bankruptcy/liquidity in the way that a company might.

6.3.4 In addition, local authorities are presumed to be a going concern for the purpose of forming an audit opinion, as the financial reporting frameworks for these bodies dictate a continued service approach, unless there is a clearly expressed Parliamentary intention to discontinue the provision of the services which the entity provides. The NAO has consulted on Supplementary Auditor Guidance, that reinforces this point.

6.3.5 87% of respondents to the Call for Views think the going concern assumption is meaningless in a local authority context. Respondents noted that local authorities would be likely to receive support from Central Government in the wake of a serious event. Many highlighted the example of Northamptonshire remaining a going concern for audit opinion purposes, even when the auditors had issued an advisory notice on what was considered to be an undeliverable budget. as an apparent example of the opinion's flaws. Those who responded that the opinion was meaningful included a majority of audit firms who acknowledged the going concern opinion's flaws and suggested changes but, on the whole, felt that it was still important that this assessment was carried out.

The value for money opinion

6.3.6 The other dimension of audit which could look at financial resilience is through the work required to support what is known as the 'value for money opinion'. The work required to support this opinion is governed by the NAO's Code of Audit Practice ("the Audit Code"). What the auditor is required to do is to form an opinion on the adequacy of the systems in place to support the economy, effectiveness and efficiency of service delivery. Under current practice in England, the auditor may test the adequacy of systems and procedures used to construct the mid-term financial plan but is only required to do so if a significant risk is identified during the audit. The auditor is not required to examine the mid-term financial plan from a sustainability perspective or form a conclusion on the financial resilience of the authority.

6.3.7 The update to the Audit Code, effective from 2020-21, will require auditors to provide a narrative statement on the arrangements in place. The aim of this statement is to provide more useful information to stakeholders, to report in a timelier manner and, through the move away from a binary opinion, encourage auditors to be bolder in highlighting concerns. The updated Audit Code has been broadly welcomed by stakeholders and has the potential to enhance value for money reporting in England.

6.3.8 What the updated Audit Code does not do is specify that auditors consider specific matters or judge local authority systems and performance against specific standards or good practice examples, such as CIPFA's *Pillars of Financial Sustainability* or their *Financial Management Code*. Nor does the updated Audit Code provide any guidance on how to assess whether a value for money risk is material.

Timeliness of the value for money opinion

6.3.9 Less than half of respondents to the Call for Views expressed an opinion on the timing of the VfM opinion. Two thirds of those who expressed an opinion agreed that the statutory reporting deadline of end-September was the right point in the annual cycle to present the VfM opinion, coming as it does near the start of the following year's annual budget setting planning cycle. Many commented that the external audit firms still had the capability to raise any significant VfM concerns outside this process, a process where they were happy with the content.

6.3.10 Those that disagreed included all but one of the audit firms who responded to this question. In addition, many of the local authorities who responded to the Call for Views didn't have strong opinions either way. Some thought that the opinion might be better presented in May, right at the start of the following financial year, but others expressed concern as to whether audit firms would have the capacity to handle a split reporting timetable.

6.3.11 A subsidiary, but still important, factor when considering the timing of the opinion is auditor resourcing. If the full benefits from the revised VfM opinion in the new Audit Code are to be realised, auditors will need to do more work.

6.3.12 Therefore, thinking about how to time the publication of the opinion so that it is of the most use, has the most impact, and can be supported by timely audit work must be a matter for serious consideration.

6.4 Practice in other jurisdictions

6.4.1 Audit requirements in other jurisdictions, for example Scotland, Wales and New Zealand provide alternative models, all of which provide practices that could help bridge the expectation gap between what auditors are required to do and what stakeholders expect them to do to assess financial resilience. The Review has explored New Zealand as it has a different model that is worthy of consideration.

6.4.2 Scotland and Wales have different models of value for money reporting, with Scotland's model requiring the auditor to assess future plans and Wales' model including the option for the auditor to undertake more focussed work on financial resilience as a separate engagement.

6.4.3 In New Zealand, there is no VfM opinion, but instead the financial audit opinion has been extended to cover a large number of pass/fail service delivery and financial resilience metrics. The financial resilience metrics are common to all authorities, allowing comparisons to be made.

6.4.4 Care needs to be taken when assessing the appropriateness of these models. There are currently 32 unitary authorities in Scotland, 22 unitary authorities in Wales and 78 local, regional and unitary councils in New Zealand compared to 343 local authorities in England. It may not be possible to scale-up practices that are appropriate in these jurisdictions to England in a coherent way or to do so at a reasonable cost.

Practice in Scotland

6.4.5 When scoping, planning, performing, and reporting on their 'best value' work, auditors in Scotland are required to consider four audit dimensions. The first of these, financial sustainability, interprets the short term going concern opinion and requires auditors to look *"forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered."*

6.4.6 The results of VfM audits of Scottish local authorities tend to produce quite rich reports, which the Accounts Commission, the public spending watchdog for local government in Scotland, uses to identify and highlight key trends and risks across the sector. For example, the *Local Government in Scotland, Financial Overview Report 2018-19 (Dec 2019)*[15] found that Scottish councils were increasingly drawing down on their revenue reserves; and whilst all councils had medium term financial planning covering the next three to five years, long term financial planning had not improved since the last report.

[15] https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf

Practice in Wales

6.4.7 The value for money audit opinion an auditor of a Welsh local authority is required to provide is the same as that in England; that is an opinion on the "arrangements for securing economy, efficiency and effectiveness in its use of resources". However, the Welsh Code of Audit Practice requires auditors to review significant arrangements in place irrespective of whether material risks have been identified.

6.4.8 Where an auditor identifies notable financial resilience or other value for money concerns, the Auditor General for Wales has the statutory power[16] to publish a separate substantive report. These reports are publicly available on the Wales Audit Office's website and provide an in-depth assessment of the issues identified and the appropriateness of the plans that the local authority has to address these.

Practice in New Zealand

6.4.9 Local authorities in New Zealand are required to report performance in the Annual Report and Accounts against a range of financial prudence benchmarks specified in legislation. The auditor is required to report on the completeness and accuracy of the local authority's disclosures against these benchmarks. As all of the benchmarks have pass/fail thresholds, they lend themselves to a binary audit opinion.

6.4.10 The purpose of this statement is to disclose the Council's financial performance in relation to required benchmarks in order to assess whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. Although the benchmarks are backwards looking, five-year trend information is presented which helps the user of the accounts to understand how effective the local authority is in managing its financial resilience.

6.5 The audit of financial resilience – a new model for England?

Introduction

6.5.1 There is a significant gap between the reasonable expectations of many stakeholders and what the auditor is required to do when assessing the financial stability and resilience of local authorities.

6.5.2 To help bridge the expectation gap, the scope of audit should include a substantive test of a local authority's financial resilience and sustainability. Care and attention will need to be taken to define how the auditor should address historical, current and future financial sustainability issues, so that the engagement does not become overly burdensome or provide false comfort to stakeholders. In addition, expanding the scope of the audit will increase costs, and there needs to be a balance between those costs and the potential benefits of additional audit coverage and reporting.

6.5.3 However, cost should not be a deterrent in and of itself. The expansion of the opinion to encompass financial resilience and sustainability would, potentially, provide comfort to the authority and to council taxpayers that the finances are in good order. This

[16] under Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009

would represent a genuine demonstration of public accountability both from a local authority and from an audit perspective.

Form of the opinion

6.5.4 The revised narrative opinion proposed in the new NAO code should lead to a significant enhancement in the usefulness of auditor reporting. The 2020 Audit Code sets out three reporting criteria (para 3.10)[17]:

- Financial sustainability: *how the body plans and manages its resources to ensure it can continue to deliver its services;*
- Governance: *how the body ensures that it makes informed decisions and properly manages its risks; and*
- 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.*

6.5.5 These criteria are not dissimilar to the four reporting pillars in the Scottish model. The pillar that auditors of English local authorities are not explicitly required to report on is financial management. It is unclear why this has been omitted but a possible reason is that an auditor would normally be expected to review material financial management controls as part of financial audit work.

6.5.6 The reporting requirements contained within the 2020 Audit Code will take time to settle down and embed and there will be a role for the regulator in identifying and promoting good practice. However, if practice develops as the NAO intends, the new reports should provide more useful information to stakeholders.

Work required to support an assessment of financial resilience

6.5.7 The 2020 Audit Code requires auditors to do less work to assess financial resilience than is required in either Scotland or Wales.

6.5.8 Specifically, auditors in England will not be required to test whether the body is planning effectively to continue to deliver its services or the way in which they would be delivered over the medium or longer time horizon as in Scotland. Nor will auditors be requested to review the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, test the operating effectiveness of those arrangements as in Wales.

6.5.9 In addition to the factors mentioned in the Code, auditors could use the indicators of financial stress in the CIPFA publication, *Pillars of Financial Resilience*, as a key element of the risk assessment.

6.5.10 To support such an assessment the auditor could be required to critically assess and, in cases where significant risks are identified, test the CFO's Section 25 report along with any other statutory reports or management estimates that have an impact on medium or long term financial resilience. This testing could include an assessment

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

of whether there are clear plans for delivering savings, the usage rate for non-ringfenced revenue reserves and whether the local authority benchmarks its costs against nearest neighbours and takes appropriate action in response to variances, as set out in accordance with CIPFA's *Pillars of Financial Resilience*.

6.5.11 In addition, the auditor could explicitly be required to assess whether the local authority has complied in practice, and in spirit, with statutory guidance that it is required to "have regard to".

6.5.12 CIPFA's *Financial Management Code* is another model that provides a set of standards against which auditors could assess value for money and financial resilience. However, it is too detailed to assess without a considerable amount of additional audit work. Nevertheless, the principles in the *Financial Management Code* would enhance the consistency of local authority financial management. MHCLG could take the opportunity to give it statutory status when the opportunity arises and require local authorities to report on their compliance with it in their Annual Governance Statement. Since auditors are required to read the Annual Governance Statement to ensure it is consistent with their knowledge of the business this, combined with the enhanced resilience testing recommended, would require auditors to report material breaches.

6.5.13 Consideration has also been given to whether it would be appropriate to require a specific investigation. A more detailed report would enable specific VfM or financial resilience issues to be identified, as in the Welsh model. This is not recommended, as this element of the Welsh model is not applicable due to scale.

7. Financial reporting in local government

7.1 The purpose of financial reporting in the local authority sector

7.1.1 Financial reports provide information to people who seek to understand the performance of an entity. As most of the money that local authorities receive is provided from general or local taxation, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with this money.

7.1.2 Local taxpayers and service users do not have the power to require a local authority to produce bespoke financial information for them. Instead, they have to rely on the financial statements. They can inspect the financial statements and the underlying accounting records for a 30-day period that must comprise the first ten days in June. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to allow them to ask appropriate questions.

7.2 Introduction to the framework

7.2.1 When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these are overridden by specific statutory requirements. As set out in **Figure 7.1**, Government retains the power to use secondary legislation either to override normal accounting practices or to require local authorities to include additional disclosures in their accounts.

Figure 7.1
Hierarchy of the Local Authority Accounting Framework

Primary Legislation	**Local Government Act 2003** Allows SoS to make provision about accounting practices that local authorities must follow.
Secondary Legislation	**Capital Finance and Accounting Regulations 2003** Gives CIPFA the power to produce a statutory accounting code. Introduces statutory overrides to private sector accounting practices; which must be reflected in the accounting code.
Statutory Code of Practice	**CIPFA Accounting Code of Practice** Statutory code setting out proper practices for local authority accounting in England.

7.2.2 When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of all the key stakeholder groups. MHCLG has observer status on this Board.

7.2.3 This Accounting Code board does not act in isolation. Its decisions are reported to the Financial Reporting Advisory Board (FRAB), which advises HM Treasury on public sector accounting. In practice, both the annual update to the Accounting Code and any amendments or adaptations to accounting standards for the local authority sector need to be considered at FRAB as well as at the CIPFA/LASAAC Board.

7.2.4 The Accounting Code applies to Principal Councils, PCCs, Chief Constables, FRAs, the GLA, Mayoral Combined Authorities, Passenger Transport Executives and National Park authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.

7.2.5 The Accounting Code is updated annually, and a new edition is published each financial year. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that at least one third of local authorities do not purchase an Accounting Code in any given year.

7.2.6 The Accounting Code does not apply to smaller authorities, for example Parish Councils, Ports Authorities or Independent Drainage Boards with gross income or expenditure of less than £6.5m per annum (which is currently all but one of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG), which comprises representatives of all of the key stakeholder groups. Smaller Parish Councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 8**.

7.3 Format of local authority accounts

7.3.1 Local authority accounts are very lengthy compared to accounts in other sectors, typically numbering in excess of 50 pages for shire districts and more than 80 for upper and single tier local authorities. They have more primary statements than central government and private sector accounts. **Figure 7.2** shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

7.3.2 Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector. This is primarily because there is a difference between the budget analysis of information for council tax purposes and the statutory basis of year end accounts.

Figure 7.2

Local Authority Accounts – Primary Statements and Supplementary Accounts

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
Movement in Reserves Statement (MIRS)*	Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes.
Balance Sheet	Sets out the Council's financial position at the year end.
Expenditure and Funding Analysis (EFA)*	Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.
Collection Fund Account* • Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA)* • LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

** Statements unique to local authority accounts*

7.3.3 Local authorities calculate their annual council tax requirement through setting a "balanced budget". The balanced budget calculation that local authorities are required to make is specified in primary legislation and is undertaken on a receipts and payments basis. Following the adoption of accruals accounting[18] by the local authority sector and as IFRS have continued to develop, successive governments have sought to protect council taxpayers from accruals movements that do not have an immediate impact on the costs of service delivery. They have done this through introducing statutory overrides.

7.3.4 The most significant of these statutory overrides relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the Movement in Reserves statement (MIRS) and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).

[18] Accruals accounting is a form of accounting where you recognise the economic cost of assets and liabilities over the period when benefits accrue. For example, if you are using accruals accounting and buy a car that you expect will last five years you would split the purchase cost of that car over five years. By comparison if you are accounting on a receipts and payments basis you would recognise the full cost of the car in the year you pay for it.

7.3.5 The adjustments process has two consequences. Firstly it substantially increases the length of local authority accounts as the financial statements report some transactions on both an accruals basis (through the CIES) and a funding basis (through the EFA and MIRS) and include notes reconciling the two; and secondly, unlike for financial statements produced by other sectors, neither the CIES nor the Balance Sheet shows the true financial position of a local authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

7.3.6 In addition to the statements in **Figure 7.2**, those local authorities who are also "administering authorities" for local authority pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. The Pension Fund accounts are audited as a separate audit engagement. This further lengthens the document and means that the audited accounts cannot be published as final until both the local authority audit and the pension fund audit have been completed. The sector has asked MHCLG to look at decoupling the local authority and pension fund accounts. However, it is not possible to do this without primary legislation.

7.4 Usefulness, understandability and transparency of local authority accounts

7.4.1 The Annual Accounts that each local authority must prepare are prescribed in detail and relevant standards must be observed in the preparation of the statutory accounts and financial report. IFRS cover both the public and private sectors so auditors seek to adhere to those principles when auditing local authority accounts. There is widespread agreement that the resultant accounts are not transparent or easily understandable.

7.4.2 Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and "market value" is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised. Underlying this point is the question of whether IFRS should continue to be a key element of local authority statutory accounts.

7.4.3 An issue related to the concern in local government about the complex local authority accounting arrangements is the capacity of the external auditor to test and validate technically intricate accounting treatment without a familiarity with local authority finance and accounting. Such an assertion by local government is not universal but it is a concern of many. However, the audit community, whilst recognising that there has been depletion in the number of auditors who served in the District Audit Service, is confident it has necessary skills and resources to fulfil the role.

7.4.4 As highlighted in **Chapter 4**, there is evidence of market stress in the supply of appropriately experienced and qualified local authority auditors. Some auditors have also argued that local government itself does not always have accounting staff with the technical expertise to complete the final accounts without guidance and support from external audit.

7.4.5 That the local authority accounts are very complex is not in dispute. There is wide acknowledgment from all stakeholder groups that the annual financial statement of accounts is understandable only to those with the necessary technical and professional knowledge of local authority accounts. When asked whether local authority accounts allow the user to understand an authority's financial performance and its financial resilience, 93% of respondents said no.

7.4.6 Whilst some local authority respondents argued that the understandability of the accounts is not an issue, because service users and taxpayers can take assurance from the fact that they are prepared and audited to internationally recognised standards, it is questionable whether this is a defensible position.

7.4.7 The lack of transparency and understandability of local authority accounts raises a fundamental and serious challenge in terms of transparency and public accountability. Potential users extend beyond councils, government and auditors. Key stakeholders include council taxpayers/service users, the general public, academia, the media and local authority partners and contractors. Without an appropriate level of transparency these users may not have the information to challenge their local authority effectively. The rigour underpinning local authority accounting and auditing may not be at issue but the accounts, as currently structured and presented, do not enable the public to understand how local authorities are stewarding public funds.

7.5 Options for reform

7.5.1 There are three broad options for enhancing the transparency and usefulness of local authority financial statements, so that they better serve the needs of a wider group of stakeholders. These are:

- Review of IFRS as a basis for the preparation of local authority accounts.
- Expansion and standardisation of the current narrative statement.
- Introduction of a new summary statement presented alongside the IFRS accounts.

7.5.2 The underlying purpose of all three options is to strengthen financial transparency and accountability by providing a simplified presentation that is more relevant to stakeholders. All options have costs associated with them but these need to be set against the benefits of that increased transparency.

Review basis on which accounts are prepared

7.5.3 CIPFA could be asked to review the basis of accounts, with the aim of updating the Accounting Code so that the transactions presented in the annual financial statements are prepared on the same basis as the annual budget approved by Full Council.

7.5.4 If followed to its logical conclusion, this would allow local authorities to prepare simplified accounts that could be easily reconciled to the annual budget. If accounts are presented on a funding basis, the reconciliations between the funding and accounting basis would no longer be required. In addition, many of the lengthier notes to a set of financial statements, such as the financial instruments disclosures, are mainly required to support IFRS disclosures and could be removed or simplified. This would lead to much shorter documents.

7.5.5 There are some issues that would have to be addressed with this recommendation. Firstly, designing and implementing a new accounting framework would be challenging. CIPFA could go back to the pre-2010 near cash accounting framework, but it is questionable whether this would be appropriate. Many local authorities are far more commercial in their operations and have far more leveraged balance sheets than in 2010, so removing much of the accounting for long term assets and liabilities could present a misleading picture of financial resilience to service users. It could lead to local authorities to leveraging their balance sheet yet further, storing up potential financial problems for future years.

7.5.6 Secondly, there is the perception risk of such a step. There could be a perceived disconnect if local authorities reverted to cash accounting at the same point that some are becoming more commercial, taking on more debt to invest in assets acquired solely or partially to generate a return.

7.5.7 Thirdly, moving away from IFRS accounting would create consistency problems between various parts of the public sector. The Accounting Code applies to Scotland, Wales and Northern Ireland as well as to England. If English local government moved to a near cash accounting framework, the other UK jurisdictions would face the decision of mirroring that move or else the Accounting Codes would need to diverge. In addition, the results of UK local government bodies are consolidated into the Whole of Government Accounts, which are prepared on an IFRS basis. If English local authority accounts moved to a near-cash accounting basis, those authorities would in practice be required to maintain financial records and prepare accounts on two bases: on a near-cash basis for their own accounts and an IFRS basis for consolidation into WGA. This would impose considerable additional cost.

7.5.8 Finally, the UK public sector is held up as applying a gold standard of accounting, primarily because it is one of the few to apply IFRS fully. If part of the sector moved away from this it could generate considerable reputational risk. As a result, HM Treasury and FRAB may well oppose any significant modification of the English local authority accounting framework.

Expansion and standardisation of the narrative statement

7.5.9 The framework for local authority annual reports and accounts is unusual in that, although local authorities are required to prepare an annual report, it does not include any mandatory disclosures. In 2015 CIPFA launched the “Telling the Story” initiative, which encouraged local authorities to use the annual report to accurately reflect financial and service performance. Some local authorities have produced innovative and informative annual reports following the launch of this initiative, but performance varies, with other authorities making minimal disclosures. In addition, because “Telling the Story” does not include mandated standards or disclosures it is not consistent across authorities.

7.5.10 By comparison, the UK Central Government Financial Reporting Manual (the "FReM") requires all central government reporting entities to prepare a Performance Report and an Accountability Report, both of which are based on Companies Act requirements as adapted for the public sector and contain mandated disclosures.

7.5.11 A similar approach could be adopted for local authority accounts. In this model, local authorities could be required to include a Performance Report in their annual report and accounts containing a reconciliation between the approved budget and year-end service expenditure, along with explanations for significant variances and the impact of the variances on revenue reserves, prepared on a budget setting basis whilst being reconcilable to the statutory accounts. Potentially this could be supplemented with standardised service delivery metrics and an explanation of longer-term risks and mitigations linked to key financial management strategies such as the Mid-Term Financial Plan, as appropriate.

7.5.12 The proposed Performance Report could be a transparent element of a local authority's Annual Report and Accounts, which discloses what the local authority planned to spend on each major service area, what it actually spent, where there were significant variances between the two what the reasons were, and what impact that has had on the reserves available to support the following year's expenditure. With the addition of service delivery metrics, the Report could also start to give an indication of what service users and taxpayers have got for their money. If the financial information and performance metrics are prepared to common standards, this could start to bring a degree of comparability between authorities, which could promote improvements in the effectiveness and efficiency of service delivery.

7.5.13 Finally, if the reconciliation between budget and outturn is presented in the Annual Report, it may be possible to remove or reduce the MIRS, the EFA and supporting disclosures. This could offset the increased work required to produce the new Performance Report.

7.5.14 There are some challenges with this approach:

- it would mean extending the scope of the audit engagement, particularly if the auditors are required to form an opinion on non-financial information.
- if non-financial service delivery metrics are subject to audit they will need to be prepared and disclosed on a consistent basis. It will be necessary to identify appropriate metrics across a range of service areas, a process that could take time. In addition, including metrics for all of the services that a local authority provides would require very lengthy disclosures.
- if included in a long Annual Report and Accounts document, there is no guarantee that this statement would be any more visible to the general public than the current financial statements are.
- there is a risk that some local authorities use the narrative element of such a statement to present an overly positive view of their achievements and finances.

Introduction of a new summary statement

7.5.15 A variation in part, and a replacement of the enhanced narrative statement, is to leave the current local authority accounts largely unaltered and instead require the production of Summarised Accounts, prepared on the budget setting basis. As with the enhanced narrative statement, the Summarised Accounts would need to be reconcilable to the Statutory Accounts and be subject to audit to have credibility.

7.5.16 Statutory Guidance would need to be developed to set out the form and content of the Summarised Accounts. Potentially they could contain:

- A statement of service information and costs prepared in a standard format and to a standardised framework. The most appropriate framework would probably be the statutory Service Reporting Code of Practice (SERCoP).
- Comparison between budget setting information and outturn performance.
- A degree of detail to encompass all key service expenditure heads; where appropriate this could be extended to present unit cost information. A simplified balance sheet, including some form of assurance relating to non-ringfenced revenue reserves and debt levels and borrowing plans, with the latter linked to the Prudential Framework disclosures, could also be produced.
- A brief narrative. This could be limited to a financial commentary comprising explanations of significant variances between budget and outturn along with an assessment of the impact on medium term financial sustainability. It may also be possible to include a brief description of outcomes though this would need to be linked back to the objectives set when the annual budget was approved.

7.5.17 The aim of this document would be to present a statement aimed at the local community rather than as a basis for compiling national statistics. Because of differences between local authorities, comparability would be difficult and potentially misleading. Local authorities could be asked to think about a range of communication methods to reach their local communities more effectively.

7.5.18 The summary accounts would be a vehicle to increase transparency. As this would be a short stand-alone document, it would be much more accessible to taxpayers and service users.

7.5.19 Local authorities would have to reconcile outturn between the funding basis and IFRS accounting basis. However, the value of disclosing these reconciliations could be reassessed, potentially allowing the MIRS, the EFA and supporting disclosures to be discontinued. This could allow the statutory financial statements to be prepared on an IFRS basis without statutory adjustments.

7.5.20 Finally, consideration would need to be given as to the level of audit required for the Simplified Statements, and the agreed procedures that auditors would be required to undertake to provide assurance over reconciliations between the IFRS Financial Statements and the Simplified Financial Statements, that are not disclosed in either.

8. Smaller authorities

8.1 Introduction

8.1.1 Smaller authorities are defined in the 2014 Act as an authority where the higher of gross annual income or expenditure does not exceed £6.5 million for three years (or one or two if the authority has not existed for three years). Currently there are just under 10,000 smaller bodies, only one of which has to prepare a full set of IFRS compliant accounts and undergo a full audit.

8.1.2 There are different types of smaller authority with a varied range of responsibilities and powers:

- Local councils including Parish, Town, Village and Community Councils and parish meetings. Some common responsibilities can include, but are not limited to, commons and open spaces, car parks, lighting, footpaths, leisure and sports facilities, litter bins, and tourism activities. Some of these services are delivered on behalf of the unitary and district councils.
- IDBs which are responsible for managing water levels including managing flood risks and land drainage.
- Other smaller authorities such as charter trustees, port health authorities, conservation bodies and crematorium boards.

Smaller authorities are financed primarily through a precept which is collected as part of council tax by the unitary or district council. They can also apply for grants and awards.

8.1.3 Governance arrangements depend on the type and size of the authority. All local authorities are required to have a clerk; however, for small authorities, this could be their only employee or may be a volunteer or part-time worker. Roughly two-thirds of smaller authorities have a single employee, and some don't have any employees. The clerk is analogous, in part, to a CFO in a principal authority, as there is a requirement to give guidance to councillors, in many cases carrying out the role of the Finance Officer. Smaller authorities must publish the statement of accounts together with any certificate or opinion provided by the local auditor[19].

8.2 Scale of audit

8.2.1 Smaller authorities are not required to produce IFRS based accounts but instead produce a simplified statement of account on a receipts and payments basis. Some larger Parish Councils present accruals-based accounts alongside this, although these are unaudited. As set out in **Figure 8.1**, smaller authorities are either exempt from audit or undergo a 'limited assurance engagement'. As the name suggests, this provides less assurance than a full-scale audit.

8.2.2 While most authorities with an income or expenditure of up to £25,000 are exempt from audit, a request can be made for a 'limited assurance engagement' from SAAA who will then appoint an auditor to undertake this work. More than 100 bodies have chosen to do this.

[19] The Accounts and Audit Regulations 2015
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Figure 8.1

Table of audit thresholds and associated requirements for smaller authorities [20]

Level of income or spending	Form of external assurance to be provided from 2017-18 onwards	% of smaller authorities in each band
More than £6.5 million.	'Full audit' under international auditing standards.	0.01%
Up to £6.5 million but more than £200,000 (accounts on income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	11%
Up to £200,000 but more than £25,000 (accounts can be on either receipts and payments or income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	31%
Gross income or gross expenditure up to £25,000	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt. Work by an auditor may still be needed in certain circumstances – notably if there are objections to the accounts.	58%
No financial transactions and no accounts	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt.	

8.2.3 Smaller authorities are also required to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes[21]. Quality of internal audit staff is said by some respondents to be variable, which has the potential to cause issues for the external audit.

8.2.4 One of the trends in recent years has been the transfer of assets and associated running costs to Parish Councils. If smaller authorities are given more responsibility, or if the spending of smaller authorities were to change to where many such authorities approach the £6.5 million threshold, the current accountability arrangements may no longer be appropriate. The assurance levels may need to be reviewed by MHCLG. This is especially pertinent as smaller authorities are not bound

[20] NAO AGN02 Specified Procedures for Assurance Engagements at Smaller Authorities https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-02-Specified-Procedures-for-Assurance-Engagements-at-Smaller-Authorities.pdf

[21] The Accounts and Audit Regulations 5(1) 2015https://www.legislation.gov.uk/uksi/2015/234/made#:~:text=5.,internal%20auditing%20standards%20or%20guidance.

by council tax referendum rules[22] and can raise their precept by the amount they consider necessary.

8.2.5 In 2020, one IDB met the threshold for preparing full statutory accounts. Available evidence suggests that this is the first occasion of this happening. The cause of the IDB's increase in income and expenditure was the capital grants it received and, as such, the requirements for a full code audit may be temporary. PSAA and the Association of Drainage Authorities (ADA) have worked with the authority to find a new auditor as the previously appointed auditor does not qualify under the statutory framework to undertake full audits. This also resulted in an increased audit fee, from less than £5,000 to £40,000. Producing full IFRS accounts will considerably increase the amount of internal work required by the IDB and this is likely to represent a challenge to its available skills and infrastructure.

8.3 Procurement of audit

8.3.1 Prior to 2017, smaller authorities were included in the audit contracts let by the Audit Commission in 2014 that were taken over by PSAA through the transitional arrangements. SAAA was designated as an appointing person under legislation[23] by the Secretary of State to take over this role from 2017-18. SAAA is an independent, not for profit company. SAAA was set up by the National Association of Local Councils (NALC), Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). Although smaller authorities have the same power to appoint their own auditors as principal authorities, in practice, all smaller authorities opted in to SAAA's procurement. SAAA has appointed external auditors for a 5-year period from 1 April 2017.

8.3.2 SAAA's procurement comprised 17 equally sized lots. Other than for IDBs, which were grouped together, lots were geographically based. The SAAA procurement was based on price once a supplier had met a minimum quality threshold. There were five firms that met this threshold. The result of this exercise was that 15 were awarded to a single audit firm and two other firms won one lot each. This met SAAA's declared objective of having a minimum of three firms in the market. Of the three firms, two had previously held contracts with PSAA and one re-joined the market. With regard to the quality and price ration for appointing auditors, SAAA believes that once a certain threshold is reached, it is very difficult to differentiate between firms on the basis of quality.

Fee scale

8.3.3 SAAA's fee scale is based on 15 bands of income or expenditure (whichever is higher). Audit Commission and then PSAA, through the transitional arrangements, also used this fee scale. Exempt authorities do not pay an audit fee. Authorities with income or expenditure of between £25,000 and £50,000 pay an audit fee of £200. Fees rise in stages up to a maximum of £3,600 in cases where income or expenditure is more than £5 million but less than £6.5 million.

[22] The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012 https://www.legislation.gov.uk/ukdsi/2012/9780111519035/regulation/3
[23] The Local Audit (Smaller Authorities) Regulations 2015 https://www.legislation.gov.uk/ukdsi/2015/9780111126103

8.3.4 The scale fees paid by smaller authorities for their audit have remained unchanged for the past 12 years. There have been savings for those smaller authorities that, from 2017, could declare themselves as exempt and, therefore, did not have to pay for an audit.

8.3.5 This audit fee model relies on larger authorities supplementing the cost of audit work for smaller authorities. As there are 15 bands of fees, there may be councils receiving the same level of audit work whilst paying different amounts. Although this may offer the most efficient method of payment to ensure audit is affordable for all smaller authorities, the banding system may warrant review.

8.3.6 Overall, smaller authorities seem content with the level of audit fees they pay. The only area of concern raised related to capital grant funding. Two Parish Councils raised concerns that the impact of the rising scale fee could be a deterrent for local authorities investing in future capital schemes in the local community.

Fee variations

8.3.7 Smaller authorities may be subject to variations to the scale fees set out above if additional work is needed. Some of this work is costed as a fixed supplement of the fee scale and some is charged at fixed hourly rates. SAAA agreed a maximum hourly rate for additional work and this is published on their website. Examples of where fee variations may be charged include the auditor considering objections to the accounts from local electors, and where special investigations are undertaken.

Quality

8.3.8 There is no indication that the smaller authority audit market is encountering delayed audit opinions, as is the case for larger authorities. SAAA use trackers completed by the firms to collate and analyse key management information to track and report on the management, delivery and the outcomes of limited assurance reviews. SAAA also reviews the underlying data quality and system interfaces on a light touch risk basis.

8.3.9 In carrying out its quality assurance role, as set out in the Appointing Person Legislation, SAAA review and test the firms' internal quality assurance processes and contract compliance systems (quality aspects) to ensure the delivery of good quality reviews. An overall rating for both quality of limited assurance review work and contract management, compliance and data quality is provided. The findings of this process are reported to each firm and to SAAA's Board. They do not publish these findings, though they maintain the right to do so.

8.3.10 A very small number of smaller authorities responded to the Call for Views; therefore, it must be stressed that the following comments are not necessarily reflective of the sector. One Parish Council commented that the arrangement with SAAA made it feel that the auditor didn't consider the council to be its customer. Similar feedback has been received concerning PSAA's role. It also commented that it felt the quality of their audit was very poor and that it added no value. This may be in part due to the framework of limited assurance audit for smaller authorities and a resulting 'expectation gap'. The Review is unable to corroborate whether this is a commonly held view.

8.3.11 Two other Parish Councils questioned whether auditors provided the right level of assurance. One commented that larger Parish Councils should be held to the same standards for financial reporting, transparency and accountability as those applied to principal authorities of equivalent size. The council linked this to the fact that some councils are playing an increasingly significant role in their communities. It is true that there are currently three smaller authorities that have an annual income or expenditure of over £5 million which is similar to the smallest Category 1 authority which is subject to a full audit. However, there are not many Category 1 authorities that are this small. The other respondent was specifically concerned about governance and financial transparency within the council and the lack of clarity on spending.

8.4 Accountability

8.4.1 In addition to producing a financial return, most smaller authorities are subject to transparency requirements. There are two Transparency Codes; authorities with an income or expenditure of £200,000 or more are included in the same mandatory Transparency Code[24] as principal authorities. Exempt authorities are subject to a specific smaller authority Transparency Code[25], made mandatory in April 2015, that:

“will enable local electors and ratepayers to access relevant information about the authorities’ accounts and governance”.

8.4.2 Authorities with income and expenditure under £200,000 but above £25,000 are expected to follow the same requirements but it is not mandatory. As these authorities are subject to audit, the transparency code was not considered to be applicable. Such difference in approach may warrant further attention. However, Commitment 8 in the governments UK National Action Plan for Open Government[26], sets out the government’s plan for local transparency which includes MHCLG developing proposals to:

“help and encourage councils to publish all the information they can”.

Objections

8.4.3 Local objections can be made to an item of expenditure in a smaller authority’s finance return. It is very difficult to ascertain how many objections to the accounts smaller authorities receive, as the auditor is required to respond, by statute, only to the objector. As a result, most objections are never made public, the exceptions being if an objector choses to publish a response or the investigation leads to a Public Interest Report. However, one authority reported over 100 objections in a single year. NALC commented that several authorities at the smaller end of the income and expenditure level are consistently subject to objections, sometimes by the same individual or group of objectors.

[24] Local Government Transparency Code 2015
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf
[25] Transparency Code for Smaller Authorities
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf
[26] 2019-2021 UK National Action Plan for Open Government
https://www.opengovernment.org.uk/resource/uk-national-action-plan-for-open-government-2019-2021/

8.4.4 The auditor is responsible for reviewing all objections that meet the statutory requirement. In deciding whether to investigate, the auditor has to review the objection, which will result in a cost to the authority (not exceeding the maximum hourly rates as specified by SAAA) even if they do not subsequently pursue an investigation.

8.4.5 The auditor can refuse to investigate an objection[27] if:

- the cost of dealing with the complaint would be disproportionate to the underlying sum;
- the objection is frivolous or vexatious; or
- it is a repeat of a complaint made in a prior year of account.

8.4.6 A number of smaller authorities receive repeat or vexatious complaints. Where an authority receives such a complaint, it can choose to terminate communication with the complainant. However, if that individual raises an objection, an auditor must consider it to see if it is something to be pursued. This work incurs a supplement to the scale fee as set out by the SAAA. Given the size of many smaller authorities, objections can be proportionately very costly, both in terms of additional fees paid to auditor firms and in terms of resources that the authority requires to support, appropriately, the objection process. As with larger authorities, outstanding objections can cause a delay in issuing the audit opinion

8.4.7 The objections regime does provide a solid basis of accountability and ensures the auditor investigates potential issues further, to supplement the 'limited assurance' audit. There may be cases where the system is misused. Consideration should be given to provide more support to auditors to enable them to identify repeat or vexatious objectors in a more efficient manner.

Public Interest Reports

8.4.8 External auditors have a duty under the 2014 Act to consider whether to issue a report where there has been a significant matter identified that needs to be addressed in the interests of the public. There are more PIRs issued for smaller authorities than there are for larger authorities. SAAA publishes reports from the 17/18 financial year on their website, and previous financial years are available on the archived PSAA website.

Figure 8.2

Smaller Authorities - Reasons why a PIR was issued

	16/17	17/18	19/20
Failure to produce an annual return (for 16/17) or an AGAR (from 17/8 onwards)	16	22	23
Criteria submitted for exemption not all satisfied	N/A	0	8
Other	6	1	0
Total	22	23	31

The "other" category includes issues relating to governance, fraud, employment law, and non-compliance with VAT regulations.

[27] NAO Local Authority accounts: A guide to your rights https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Council-accounts-a-guide-to-your-rights.pdf

8.4.9 One authority had a PIR issued for all three years for failure to produce an annual return or annual governance and accountability returns (AGAR), and a further seven authorities had a PIR issued in two of the three years for the same reason. Failure to produce an AGAR from 2017/18 triggers a statutory recommendation to the authority from the external auditor that it should submit an approved AGAR within 42 days. A public interest report is then issued if the authority fails to do so.

8.4.10 Out of the six PIRs issued in 16/17 that were *not* due to a failure to produce an annual return, four of them related to work carried out by auditors in response to objections raised by a local elector. In one authority's case, it received objections on a multitude of issues with one issue (ineffective internal audit and other governance failings) receiving a number of objections.

8.4.11 If a smaller authority chooses not to engage with external audit recommendations or PIRs, there is no mechanism, other than through local elections, to hold smaller authorities to account. The LGSCO investigates complaints against larger local authorities, but this does not extend to Parish Councils. If MHCLG wishes to devolve more powers to smaller authorities or smaller authorities increase their spending considerably, MHCLG should consider further accountability arrangements for smaller authorities.

8.5 Financial Reporting in Smaller Authorities

8.5.1 Smaller authorities that are able to declare that they have had had no financial transactions in the year of account do not need to prepare accounts. Instead they can send a declaration that they are exempt to their auditor.

8.5.2 Smaller authorities that cannot declare themselves exempt have to prepare an Annual Governance and Accountability Return (AGAR). The AGAR which is freely available, is updated and produced by SAAA and approved by the SAAA board. The cost of its production is met by SAAA.

8.5.3 JPAG is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities, together with stakeholder partners representing MHCLG, the Department of Environment, Food and Rural Affairs, CIPFA, the NAO and a representative of the external audit firms appointed to smaller authorities.

8.5.4 The AGAR has a number of sections. In order these are:

a. Guidance notes on how to complete the template and what information needs to be published on the authority's website.
b. The Annual Internal Audit Report.
c. Section 1: The Governance Statement.
d. Section 2: The Accounting Statement, which is prepared on a receipts and payments basis.
e. The External Auditor Report and Certificate.

8.5.5 Each non-exempt smaller authority is required to complete parts b, c, and d of the AGAR and send it together with a bank reconciliation and an explanation of any variances between the budget and the outturn to the auditor. The template itself is quite short, but fairly busy, with detailed guidance included in each section.

8.5.6 Under the Accounts and Audit Regulations 2015, authorities must publish the following information on a publicly accessible website. Before 1 July, smaller authorities must publish:

- Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited;
- Section 1 - Annual Governance Statement, approved and signed; and
- Section 2 - Accounting Statements, approved and signed.

8.5.7 Not later than 30 September, smaller authorities must publish:

- Notice of conclusion of the audit;
- The External Auditor Report and Certificate: and
- Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.

9. Conclusions

9.1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of The Review

9.2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:

- providing clarity of purpose in local audit;
- giving emphasis to performance and accountability in local audit framework;
- maintaining and improving the stability of the local audit market;
- reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
- improving and strengthening the governance arrangements underpinning effective local audit;
- developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
- engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
- providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

9.3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

9.4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.

9.5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.

9.6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.

9.7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.

9.8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to ‘turnover’ thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.

9.9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.

9.10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local authority’s financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO’s annual Section 25 report of the budget. This could be further assisted by a review of the local authority’s observance of CIPFA’s Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor’s work is genuinely transparent and accessible to local taxpayers an Auditor’s Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

9.11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.

9.12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.

9.13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

10. List of Annexes

1. What are auditors required to do?
2. Roles and duties of Statutory Officers
3. Functions of the Office of Local Audit and Regulation
4. Illustrative Simplified Financial Statements
    a. District Council
    b. Fire and Rescue Authority
    c. Police and Crime Commissioner
    d. Unitary Authority
5. Potential impact of recommendations made by other reviews of audit
6. Approach of other state auditors to performance audit
7. Terms of Reference
8. Call for Views respondents

Appendix – Glossary of Key Terms, Acronyms and Abbreviations

ACCA – Association of Chartered Certified Accountants
Professional accounting body offering the Chartered Certified Accountant qualification

Accounting Officer
Normally the Permanent Secretary of a government department who is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources

Accounts and Audit Regulations 2015
Statutory Instrument that sets the deadlines for publishing unaudited local authority accounts for inspection and for publishing audited local authority accounts; requires local authorities to have an internal audit; and details the information that must be included in local authority annual report and accounts.

Adverse Opinion
An audit opinion - a conclusion that an authority's accounts are not true and fair/proper arrangements to secure the economy, effectiveness and efficiency of service delivery are not in place.

AGN – Auditor Guidance Notes
Guidance produced by the National Audit Office to support external auditors in their work and to facilitate consistency of approach between auditors of the same types of entity. These have the same status as the NAO Audit Code of Practice

ALB – Arm's Length Body
A body which has a role in the processes of national government but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Annual Audit Letter – also known as Audit Completion Report or ISA260 Report
The annual audit letter summarises key findings from the auditor's yearly audit; often includes management recommendations.

AQR – Audit Quality Review team
The part of the Financial Reporting Council that monitors the quality of the audit work of statutory auditors and audit firms in the UK that audit Public Interest Entities (PIEs). Since 2018-19 AQR has been responsible for the quality assurance of larger local authority audits.

ARGA – Audit, Reporting and Governance Authority
A planned independent regulatory body to replace the Financial Reporting Council. This was recommended by Sir John Kingman in his review of the Financial Reporting Council and supported by Sir Donald Brydon in his review into the quality and effectiveness of audit

Audit Commission
A now disbanded independent public corporation that had the responsibility for appointing auditors to a range of local public bodies in England. They set the standards for auditors and had oversight their work

Audit Scotland
The body responsible for supporting the Auditor General for Scotland in providing independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

BEIS – Department for Business, Energy & Industrial Strategy
Has policy responsibility for statutory audit, including taking forward the recommendations made by the Kingman and Brydon reviews.

Best Value
A local authority should make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Under the Duty of best value, therefore, authorities should consider overall value, including economic, environmental and social value, when reviewing service provision. Central government may use its best value powers to intervene in a local authority in exceptional cases where that best value duty has not been met.

Brydon Review
Independent Review into the Quality and Effectiveness of PIE Audits led by Sir Donald Brydon (published December 2019).

C&AG – Comptroller and Auditor General
An independent officer of the House of Commons who leads and is supported by the National Audit Office. Has the statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Responsible for preparing, maintaining, and developing the Code of Audit Practice for local authority auditors (the Audit Code).

Capital Finance and Accounting Regulations 2003 (as amended)
Regulations governing local authority capital finance and investment. Include the statutory overrides to GAAP that local authorities in England are required to apply.

Category 1 Authority
A relevant authority that either: (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations. All local authorities with income or expenditure of more than £6.5m are Category 1 authorities. The Council of the Isles of Scilly and Shire Districts with income and expenditure of less than £6.5m are also Category 1 authorities.

Category 2 Authority
A relevant authority that is a smaller authority (that is a parish council, parish meeting or internal drainage board) and has annual income and expenditure of less than £6.5m

CFO – Local Authority Chief Financial Officer / Head of Finance (also referred to as the S151 Officer)
A local authority officer, who has statutory responsibility for the proper conduct of that local authority's financial affairs.

CIAA – Chartered Institute of Internal Auditors
A representative body of internal auditors

CIPFA – Chartered Institute of Public Finance and Accountancy
A professional public finance accountancy body. Maintains four statutory codes that local authorities are required to 'have regard to'.

Clean opinion – also known as an “unqualified opinion”
An audit opinion – that the accounts are true and fair, free from material misstatement and have been properly prepared in accordance with the applicable accounting framework.

Code of Audit Practice
The “Audit Code” sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. The Comptroller and Auditor General is responsible for the preparation, publication and maintenance of the Code of Audit Practice.

Code of Practice on Local Authority Accounting
Public sector organisations responsible for locally delivered services are required by legislation to prepare their accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

CIPFA/LASAAC
A partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). Responsible for preparing, maintaining, developing and issuing the Accounting Code.

CMA – Competition and Markets Authority
A non-ministerial government department responsible for strengthening business competition and preventing and reducing anti-competitive activities

CMA Markets Study - Audit
The CMA carried out a study into the statutory audit market, to see if the market is working as well as it should. (published October 2018)

County councils – also known as Shire Counties
Upper tier authority responsible for services across the whole of a county such as: education; transport; planning; social care.

CQC – Care Quality Commission
An executive non-departmental public body responsible for monitoring, inspecting and regulating health and social care services.

DHSC – Department for Health and Social Care

District Audit Service
Set up in 1844, and originally part of HMT, was the Audit Commission’s in-house audit practice until all local authority audits were outsourced for the 2012-13 financial year. Most staff working in the DAS at that time transferred to the private sector accountancy firms who took on responsibility for local authority audits.

District Council – also known as Shire District
Lower tier authority, responsible for services over a smaller area than county councils such as: rubbish collection; recycling; Council Tax collections; housing; planning applications

EFA - Expenditure and Funding Analysis
Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES

Except for opinion
An audit opinion - a conclusion that in all material respects the accounts are true and fair/proper arrangements are in place except for the matters detailed in the audit certificate and report OR a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether one or more material items in the accounts are true and fair/a material element of proper arrangements are in place

Financial Reporting
Financial reporting uses financial statements to disclose financial data that indicates the financial health of an entity over during a specific period of time. These reports provide information to people who wish to understand the performance of an entity

FRA – Fire and Rescue Authority
A supervisory body which ensures that a local fire service performs efficiently and in the best interest of the public and community it serves. FRAs can be part of a another type of local authority or can be stand-alone entities.

FRAB – Financial Reporting Advisory Board
The role of the board is to ensure that government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice as far as possible.

FRC - Financial Reporting Council
An independent regulatory body which regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. Currently transforming into a new body the Audit, Reporting and Governance Authority.

FReM - UK Central Government Financial Reporting Manual
The technical accounting guide to the preparation of financial statements, prepared after consultation with the Financial Reporting Advisory Board. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland

General Fund
The main revenue account that local authorities are required to maintain. The majority of income goes into the general fund account and most service expenditure is funded from it.

General Power of Competence
Introduced by the Localism Act 2011 and took effect in February 2012. In simple terms, it gives councils the ***power*** *to do anything an individual can do provided it is not prohibited by other legislation. Most wholly-owned local authority companies are set up under the General Power of Competence.*

Generally Accepted Accounting Practice/Principles (GAAP)
A collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced "gap." GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Going Concern Test
An element of the audit report certifying that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. Going concern reporting is very specifically about ensuring that the correct accounting basis is being used, not about confirming whether an authority is running out of resources.

Greater London Authority (GLA)
A type of local authority. The GLA regional authority, with powers over transport, policing, economic development, and fire and emergency planning in Greater London. The GLA is unique in the British devolved and local government system, in terms of structure elections and selection of powers.

Head of Paid Service
The Head of Paid Service has statutory responsibility for the management and coordination of the employees appointed by the Council. Although the roles are separate, frequently the Chief Executive or Managing Director of a local authority.

HMICFRS - Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
Inspectorate responsible for independently assessing the effectiveness and efficiency of police forces and fire & rescue services.

HMT – Her Majesty's Treasury

HOFMCP - Home Office Financial Management Code of Practice
The financial management code of practice provides clarity around the financial governance arrangements within policing

Housing Revenue Account
Legislation prohibits social housing expenditure from being subsidised by general fund expenditure and vice versa. Therefore, local authorities with social housing stock are required to maintain a separate "housing revenue account", which must be self-financing.

ICAEW - Institute of Chartered Accountants of England and Wales
A professional membership organisation that promotes, develops and supports chartered accountants and students in the UK, Wales and globally. Responsible for maintaining the register of firms and KAPs qualified to sign off audits of local authority accounts.

ICAS - Institute of Chartered Accountants of Scotland
A professional membership organisation that promotes, develops and supports chartered accountants and students in Scotland.

IFRS – International Financial Reporting Standard (set by the International Accounting Standards Board)
A public interest organisation which has developed and maintains a single set of globally accepted accounting standards.

Internal Drainage Board
A type of local authority which is established in areas of special drainage need in England and Wales with permissive powers to undertake work to secure clean water drainage and water level management within drainage districts. The area of an IDB is not determined by county or metropolitan council boundaries, but by water catchment areas within a given region.

ISA - International Standards on Auditing
Standards for audits of financial statements, which include objectives for the auditor, together with requirements and related application and other explanatory material. ISAs(UK) are issued by the FRC.

KAP – Key Audit Partner
A senior member of staff within an audit firm who is registered to sign off a set of local authority accounts. Does not need to be a partner in the firm.

Kingman Review
Independent Review of the Financial Reporting Council led by Sir John Kingman (published December 2018). Included commentary and recommendations for local audit.

KPI – Key Performance Indicator
A performance measurement which helps evaluate the success of an organisation or of a particular activity in which it engages.

LGA – Local Government Association
The national membership body for local authorities.

LGSCO – Local Government and Social Care Ombudsman
A service that investigates complaints from the public about councils, registered adult social care providers and other select bodies providing public services in England

Limitation in Scope
An audit opinion - a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether the accounts are true and fair and/or proper arrangements are in place to deliver economy, efficiency and effective services.

Local Audit and Accountability Act 2014
Abolished the Audit Commission and established the current arrangements for the audit and accountability of the local public audit system

Local Audit Delivery Board
Consultative board chaired by MHCLG, which compromises of representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the local authority accounting framework. Meetings are held in private and it has no formal powers or remit.

Local Government Act 2000
An Act to make provision with respect to the functions and procedures of local authorities

London Borough
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through the Greater London Authority.

Mayoral Combined Authority
A type of local authority created in areas where they are considered likely to improve transport, economic development and regeneration. MCAs are led by metro mayors who make decisions about policy and spending in conjunction with council leaders from each constituent council. Both the metro mayor and each of the council leaders have a single vote and must approve or oppose decisions.

Metropolitan borough – also known as Metropolitan District
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through 'joint authorities

MHCLG – Ministry of Housing, Communities and Local Government
The government department with policy responsibility for the local audit framework.

MIRS - Movement in Reserves Statement
Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes

Monitoring Officer
A local government officer with three main roles: to report on matters he or she believes are, or are likely to be, illegal or amount to maladministration; to be responsible for matters relating to the conduct of councillors and officers; and. to be responsible for the operation of the council's constitution.

NAO – National Audit Office
The UK's independent public spending watchdog. The NAO support Parliament in holding government to account and they work to improve public services through their audits. They are led by the Comptroller and Auditor General

NHSI(E) – NHS England and NHS Improvement
The umbrella body for the NHS in England. From 1 April 2019, NHS England and NHS Improvement have worked together as a new single organisation to better support the NHS to deliver improved care for patients.

Ofsted - Office for Standards in Education
Office for Standards in Education, Children's Services and Skills. Inspect services providing education and skills for learners of all ages. Also inspects and regulate services that care for children and young people including those delivered by local authorities.

Parish Council – can also be known as community councils
A civil local authority found in England and is the lowest tier of local government. They are elected corporate bodies, have variable tax raising powers. Responsibilities of parish council's vary considerably but can include allotments, bus shelters, burials and maintenance of common land and rights of way.

Parish Meeting
A meeting to which all the electors in a civil parish are entitled to attend. In some cases, where a parish or group of parishes has fewer than 200 electors, the parish meeting can take on the role of a parish council, with statutory powers, and electing a chairman and clerk to act on the meeting's behalf.

PCC – Police and Crime Commissioner
An elected official in England and Wales charged with securing efficient and effective policing of a police area. Commissioners replaced the now-abolished police authorities.

PIE – Public Interest Entity
A listed company or an entity with listed debt. Under EU Law, entities are designated by Member States and are usually defined as having undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

PIR – Public Interest Report
When an Auditor considers there to be a matter that is sufficiently important enough to be publicly brought to the notice of the council or the public they can make a report in the public interest.

PSAA - Public Sector Audit Appointments Ltd
Public Sector Audit Appointments is a company limited by guarantee wholly owned by the Local Government Association. PSAA are specified as an appointing person for local authority under provisions of the Local Audit and Accountability Act 2014. The functions of PSAA are specified in statute.

Qualified Audit Opinion
When an external auditor concludes that financial records have not been maintained in accordance with the Generally Accepted Accounting Principles. There are three types of qualified opinion; an except for; adverse; and limitation in scope opinion

SAAA - Smaller Authorities' Audit Appointments Ltd
The sector-led limited company appointed as the specified person to procure and appoint external auditors to smaller authorities and to manage the ongoing smaller authority audit contracts.

SERCoP - Service Reporting Code of Practice
A statutory code that sets out the proper practices with regard to consistent financial reporting for services; all local authorities in the UK are expected to adopt its mandatory requirements and recommendations and use them when reporting statistical data to central government.

Smaller Authorities - parish, community and town councils and internal drainage boards
These operate at a level below district and borough councils and in some cases, unitary authorities. They sometimes deliver additional services on behalf of the district council.

SOLACE – Society of Local Authority Chief Executives
Members' network for local government and public sector professionals throughout the UK

TUPE - Transfer of Undertakings (Protection of Employment)
Regulations to protect employees if the business in which they are employed changes hands. The two types of transfer protected by TUPE regulations are business transfer and service provision changes

Unitary Authorities
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide.

Unqualified Audit Opinion
When an external auditor concludes that the financial statements of an entity present fairly its affairs in all material aspects

VfM Conclusion – Value for Money Conclusion
A requirement that external auditors undertake sufficient work to be able to satisfy themselves as to whether the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period

Welsh Audit Office
The Wales Audit Office provides staff and other resources for the Auditor General's work, and monitors and advises the Auditor General for Wales.

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Annex 4d – Illustrative Simplified Financial Statement: Unitary Authority

Illustration

ANNEX 4D – ILLUSTRATIVE SIMPLIFIED FINANCIAL STATEMENT: UNITARY AUTHORITY

Financial Performance Statement

This financial performance statement provides an analysis of the council's financial performance and position over the last 12 months.

Golden-Sands.gov.uk

1. Financial Performance Statement

We have a responsibility to feed back to you, as a local resident or tax payer, on how we spend and manage Golden Sands Council's resources.

This financial performance statement compares the budget (what we planned to spend) at the start of the year with what we actually spent and explains the changes. If we have over or under spent, we have explained why.

As well as our annual expenditure, this statement also includes information about our longer-term financial sustainability. This is important so that you know the resources we have available to provide services into the future. The summary shows you what we own and what we owe, and what we have put aside to make sure we can deliver services beyond this year.

You can have confidence in the figures in this report because we have to follow regulations and standards in compiling them, and the information from our accounts is independently audited.

This information is consistent with that reported in the council's audited accounts. A full set of Golden Sands Council's Statement of Accounts is available from the Council's website.

About Golden Sands Council

Golden Sands is a unitary council, and this means we have responsibility for delivering services such as education, adult social care, housing, waste collection and leisure services.

To deliver these and other services, working with other organisations is important as it helps us to achieve more with our resources. We work closely with our neighbouring authorities, especially on economic regeneration.

Where the council gets its money from

A local council gets money from three main sources: council tax, business rates and grants from the government. We also receive locally generated income from activities such as planning, car parking and investment returns.

We have to make sure that when we set the budget for the year, we can afford to pay for the services we offer. This includes any plans we make where we need to include longer-term commitments. A council must balance its budget each year, and setting council tax is an important part of this process.

Our total funding is £549.9m, and this must support the services for a population of 325,000.

Illustration

2. Analysis of Financial Performance

Table 1 below shows what Golden Sands Council planned to spend (its budget) against what we actually spent in the year.

Where a service generates income such as fees and charges, that income will be included as well. The difference between expenditure and income is known as net spend.

The net spend (expenditure less income) can be compared to the budget, and the difference between the two is shown in the final column. The positive figures are those where we have spent less than planned and the negative figures are where we have spent more than planned.

The differences from the budget are explained in Table 2 below.

Table 1 - Golden Sands Council Budget - what we planned to spend against what we finally spent

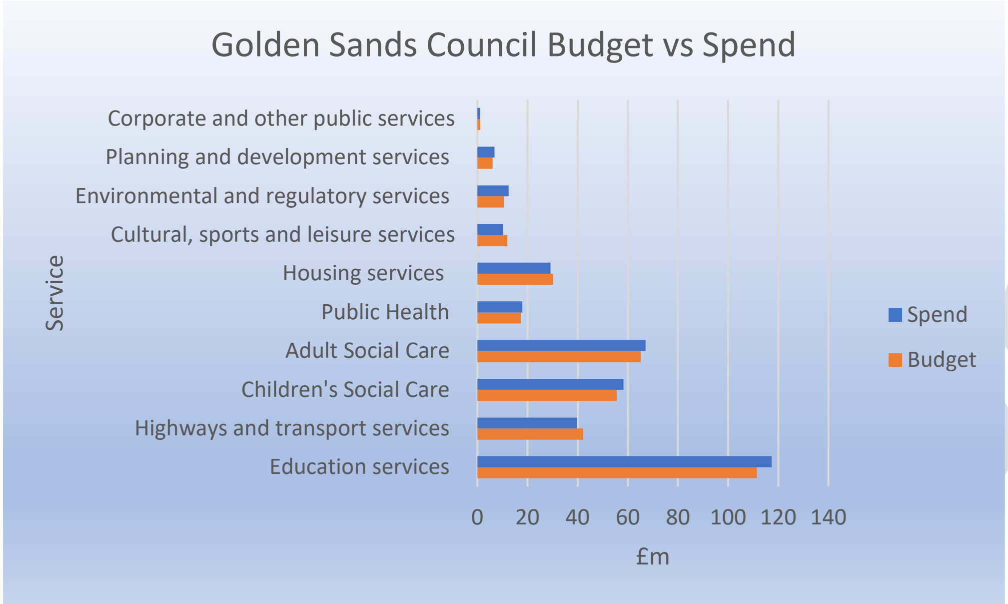
Service	Budget (What we planned to spend)	Net Spend (What we actually spent)	Difference from Budget
	£m	£m	£m
Education services	111.5	117.3	-5.8
Highways and transport services	42.2	39.8	2.4
Children's social care	55.6	58.3	-2.7
Adult social care	65.1	67.1	-2.0
Public health	17.3	17.9	-0.6
Housing services (excluding the Housing Revenue Account which is considered in section 3)	30.2	29.1	1.1
Cultural, sports and leisure services	11.9	10.3	1.6

Service	Budget (What we planned to spend)	Net Spend (What we actually spent)	Difference from Budget
Environmental and regulatory services	10.5	12.4	-1.9
Planning and development services	6.1	6.8	-0.7
Corporate and other services to the public (e.g. local tax collection and coroners' services)	1.1	1.1	0
Total service expenditure and income	***351.5***	***360.1***	***-8.6***
Financing costs (costs relating to financing debt)	0.5	0.6	-0.1
Net taxation and grant income (excluding council tax income)	-205.2	-205.4	0.2
Total expenditure and income	**146.8**	**155.3**	**-8.5**
Transfers to/from – reserves	***3.6***	***-4.9***	***8.5***
Council tax requirement *(Our income without council tax is not enough to pay for the service we deliver - this is the amount we need to raise to cover that gap)*	**150.4**		

Illustration

The differences between what we planned to spend against what we have actually spent are demonstrated by the graph below.

Graph 1 - Golden Sands Council Service Analysis - budget against spend



What were the differences?

Table 2 – Explanations for the significant differences between what we budgeted for and what we spent

We have spent £8.5m more than budget due to the following significant differences:		
Service	**Explanation**	**Difference £m**
Education services	• lower than anticipated government grants received for education services	-1.1
	• increased expenditure on special educational needs	-4.8
Highways and transport services	• a small number of key schemes did not start when expected and were delayed until the following year	2.4
Children's social care	• lower than anticipated government grants received	-1.2
	• increased needs of the children assessed	-1.5
Adult social Care	• increased expenditure due to an improvement in care packages delivered	-2.0

	• Other adjustments	-0.3
	Total differences between budget and spend	**-8.5**

Illustration

3. Housing Revenue Account

As the landlord account for the authority, the Housing Revenue Account (HRA) accounts for all services to tenants and leaseholders, and is the account which holds the rent we collect.

The HRA is a separate account to the general budget and the Council is not allowed to subsidise the HRA by making contributions from the General Fund. This means that the HRA must break even in its own right.

Table 3 shows the spending on HRA services to council tenants in the year and how that compared to the HRA budgeted figures. Significant differences to the budget are explained in table 5.

Table 3 - Analysis of HRA budget against actual spending

Housing Revenue Account	Budget (What we planned to spend)	Net Spend (What we actually spent)	Difference from Budget
	£m	£m	£m
Rent income	16.3	15.9	0.4
Other income	1.4	1.5	-0.1
Total Income	**17.7**	**17.4**	**0.3**
Repairs and maintenance	5.1	4.4	0.7
Managing the stock	4.6	4.6	0.0
Rents, rates and taxes	0.2	0.2	0.0
Capital financing and interest charges	6.7	6.1	0.6
Set aside for stock improvements	1.7	1.7	0.0
Total Expenditure	**18.3**	**17.0**	**1.3**
Surplus (-) / Deficit	***0.6***	***-0.4***	***1.0***

Table 4 shows the level of reserves that the council holds to support the future provision of council housing and manage future risks.

Table 4 – HRA Reserves

Housing Revenue Account Reserves	Opening Balance	Closing balance
	£m	£m
HRA Reserves	10.7	11.1

Illustration

Table 5 – Explanations for the significant differences between what we budgeted for and what we spent

The net underspend of £1.0m is due to the following significant variations:		
Service category	**Explanation**	**Difference £m**
Dwelling Rents	Reduced rent income due to higher than expected Right to Buy sales to tenants	-0.4
Repairs and Maintenance	Fewer responsive repairs than anticipated	0.7
Capital financing and interest charges	HRA share of savings in corporate interest costs	0.6
	Other spending differences (net)	0.1
	Total differences between budget and spend	**1.0**

Illustration

4. The Council's Financial Position

Golden Sands Council uses your money to provide necessary local services. The summary financial position below (also known as the balance sheet) represents a summary, or 'snapshot,' of the financial position at a single point in time, which for councils is 31 March. Each year it sets out what the council owns and how much is owed, and the resources it has left to support the provision of future services on the 31 March.

Below we show the council's financial position at the year-end, which is a summary of the balance sheet in the audited accounts. This information supports the assessment of whether or not the council has a sustainable financial position and is able to support and maintain services on an on-going basis. The net financial position helps inform future financial planning and sustain the services we deliver.

Summary Financial Position

	£m
What we own *(held as 'assets')*	2,525.5
What we owe *(held as 'liabilities')*	-1,634.2
Net Financial Position *(assets less liabilities)*	**891.3**
The net financial position is held in reserves as follows:	
General reserves available to the Council	131.1
Other reserves held for statutory and/or specific purposes	760.2
Total Reserves	**891.3**

Financial Sustainability - The ability to plan for the future

We have to plan for the long term to ensure that we can continue to deliver our services in future years and be able to deal with any unexpected events. As a result, it is important that our financial standing (or sustainability) is robust.

Golden Sands Council has a fully developed five-year financial plan, which includes looking at risks and future demands on services. The biggest risks identified are likely to be:

- *Population growth and age profile* – this is likely to lead to increased service demand
- *Schools balances* – we have funding shortages due to government education grants being less than expenditure
- *Safeguarding the financial position of the council* – the council is looking at ways to improve efficiency and deliver services in different ways. These plans are currently on track.

Illustration

More about our Reserves

Table 6 sets out a breakdown of the council's general reserves.

Table 6 – General Reserves

	Amount held at 31 March £m
Earmarked reserves (reserves which are planned to fund specific projects or other council commitments)	90.4
Unallocated reserves (reserves held to support future service provision and manage risk)	45.8
School's balances* (balances held specifically for schools - these are held separately from other council funds)	-5.1
Total general reserves	**131.1**

*Note we have a deficit balance on our school's balances. As these are ringfenced, these balances do not impact on the setting of our council tax.

Council Subsidiaries, Associates and Joint Ventures

The council has financial interests in several [number*]* organisations, the results of which are included in Golden Sands Statement of Accounts. The most significant of these are Golden Sands Care Homes and a housing development company, Sunset Homes. A number of less significant organisations are not included in the accounts, but are included in table 7 below for completeness.

Table 7 – Financial interests in other organisations

Type	Number
Subsidiaries fully owned	2
Subsidiaries part owned	1
Associated organisations and Joint Ventures	4

Illustration

The organisations included in the Statement of Accounts have the following impact on the financial position of the council:

Subsidiaries, Associates and Joint Ventures	**£m**
What we own and are owed *(held an 'assets')*	106.3
What we owe *(held as 'liabilities')*	-99.2
Net Financial Position *(assets less liabilities)*	**7.1**
The net financial position is held in reserves as follows:	
General reserves available for future spend	21.9
Other reserves held for statutory and/or specific purposes	-14.8
Total Reserves	**7.1**

Raising debt to finance council investment

Councils can borrow to invest in property or other infrastructure that supports the delivery of services, but they must ensure that they can pay this amount back. The Council has an underlying need to borrow to finance these assets (this includes assets which are leased) of £871.1m. The council must set aside a prudent amount of resources each year so it can pay back its borrowing, and this must be affordable when compared to its annual income.

We compare what it is costing to cover our borrowing costs for these assets against the funding we receive from council tax, business rates and grants (our income streams) to show you what proportion of income is required to fund the council's investments.

Table 8 - Borrowing costs as a proportion of income

2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Actual	Actual	Actual	Forecast	Forecast	Forecast
0.9%	1.2%	1.3%	1.5%	1.6%	1.6%

You can find more detail on these balance sheet items in Golden Sands Council's Statement of Accounts.

Investments in Commercial Properties

This year the council has purchased, for £20m, Sunny Sands Regional Development Park, which includes 50 industrial units. This purchase was funded in part from capital receipts from the sale of other assets (50%) and in part from borrowing (50%). The council purchased the development park because the industrial units are not performing at a commercial level and sales of the units are slow. The development park is in the local Southern Sands region, which is an important area for economic development.

Illustration

Commercial rates of return on investments for these types of property locally are 2.5%. Success for the Council would be a rate of return of 1.5%. In its first year, the rate of return on the investment is at 0.5%. The Council plans to increase this to 1.5% over the next three years.

5. Golden Sands Council Performance Data 1 April 2019 to 31 March 2020

Table 9 - Golden Sands Council performance information

The table below provides financial performance information for our key services, identifying the costs incurred by the authority (using the information in Table 1) and measuring that on an appropriate unit basis, for example, per head of population or per km of minor roads.

Cost Type	Unit Cost
Education services Cost per child aged 4 to 18	£2,290
Highways and transport services Cost per km of minor roads	£22
Children’s social care Cost per child under 18	£1,079
Adult social care Cost per head of older population (over 65’s)	£1,284
Public health Cost per head of population	£55
Housing services Cost per head of population	£90
Cultural, sports and leisure services Cost per head of population	£32
Environmental and regulatory services Cost per head of population	£38
Planning and development services Cost per planning application	£2,592
Corporate and other services to the public Cost per head of population	£3

[Note the above extract is indicative only and the detail of what could/should be set out in a financial performance statement will form a significant element of future consultation.]

Illustration

AUDIT CERTIFICATE

Audit certificate to be developed. There is an expectation that this statement will be subject to external audit from 2021/22.

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Audit and Standards Committee

5 November 2020

Warwickshire County Council – Changes to Accounting Policies

Recommendations

The Audit and Standards Committee is recommended to:

(a) Agree that the accounting policy for group accounts outlined in paragraph 2.7 should be used as the basis for the preparation of the 2020/21 Warwickshire County Council Statement of Accounts, or any subsequent year thereafter should the criteria for the production of group accounts be met;

(b) Agree that the accounting policy for leases outlined in paragraph 3.13 should be used as the basis of the preparation of the 2021/22 Warwickshire County Council Statement of Accounts and the additional disclosure notes required in 2020/21;

(c) Note the amendments to the presentation of the statement of accounts in paragraphs 2.8 and 3.17 that will result from the changes in accounting policy.

1. Purpose of the Report

1.1. As a local authority we are required to comply with the CIPFA Code of Practice on Local Authority Accounting (the Code) when preparing our annual accounts. The Code requires that we produce group accounts if we are involved with companies that meets the threshold of materiality. As an authority we are likely to reach this position either in 2020/21 or 2021/22. The Code also includes additional disclosure requirements in relation to leases that will take full effect for the 2021/22 accounts.

1.2. As part of their remit, in recommending the annual Statement of Accounts to Council for approval, the Audit and Standards Committee are required to approve accounting policies on which the financial statements are based, and the approach adopted by the Authority in complying with accounting requirements. It is therefore best practice where there has been a potentially material change in accounting policy the Audit and Standards Committee are able to consider and approve this change before it is implemented as part of the year end accounts production process (CIPFA's publication "Audit Committee: Practical Guidance for Local Authorities" (2018)).

1.3. Also under Auditing Standards (ISA 260) the external auditors will report to the Audit and Standards Committee their views on the acceptability of our accounting policies and, as there has been a change, they will comment on it in their formal Audit Findings Report that will come to the Committee in July 2021. This reinforces why it is recommended practice that the Audit and Standards Committee should be aware of and approve any changes to accounting policies prior to the external auditors commenting on them.

1.4. Consequently, this report outlines our proposed approach to meeting the accounting requirements for group accounts and the new requirements for reporting leases and seeks the agreement of the Audit and Standards Committee to the accounting policies we will use as the basis for the preparation of the Warwickshire County Council Statement of Accounts for 2020/21 and future years.

1.5. The Committee should note that we have fully engaged with the external auditors as the approach outlined in the report was developed and also in how we intend to provide assurance about this impact of the change on our financial statements. The external auditors have indicated they are content with the approach outlined in the report.

2. Group Accounts

Overview of Group Accounts

2.1. The County Council has approved the creation of a wholly owned Warwickshire Property and Development Company (WPDC) as the preferred delivery option for its land and property assets to assist the Council in meeting its strategic drivers for place shaping. Unlike Educaterers Ltd and Warwickshire Legal Services Trading Ltd, it is expected that WPDC will cross the materiality threshold and therefore the County Council will be required to produce group accounts alongside the County Council's standalone statement of accounts.

2.2. WPDC will be a wholly owned entity through a mix of debt and equity. The exact mix has not yet been finalised. Financial statements will be impacted as and when assets and loans are transferred to WPDC that are in excess of our materiality threshold (approximately £13m in 2019/20). The purpose of bringing forward this report now is to ensure we are prepared to produce group accounts as and when required.

Basis of consolidation

2.3. The County Council has strict statutory deadlines for the completion and auditing of our accounts. These timescales will, going forward, also apply to the production and auditing of any group accounts we are required to produce.

2.4. The Code and International Financial Reporting Standards (IFRS) require that the financial statements of the reporting authority (Warwickshire County Council) and its subsidiaries, associates and jointly controlled entities shall be prepared as of the same date. However, the year-end date and reporting timescales of WPDC and any other entities we are required to consolidate may not be 31 March. Where this does not happen, for consolidation purposes, additional financial statements, as of the same date as the County Council will be prepared unless it is impracticable to do so. Therefore, for consolidation purposes we will either use draft accounts as of 31 March or a combination of part year audited accounts and management accounts for the balance of the financial year.

2.5. WPDC and other subsidiaries will be consolidated into the group accounts on a line-by-line basis incorporating their income and expenditure fully in the relevant service revenue accounts. Joint ventures will be consolidated into the group accounts under the equity method i.e. we will only consolidate our proportionate share of any joint venture company.

2.6. Whilst our other wholly owned companies are not material to our Statement of Accounts we will not consolidate their accounts into the County Council's Group Accounts but will continue to report them under the Related Parties note.

Group Accounts Policy

2.7. The proposed accounting policy in relation to Group accounts is as follows:

The Council has interests in companies and other entities. Where these interests are material and satisfy one of the criteria tests: that the Council has control, either individually or jointly with another party; or has significant influence over the entity, then group accounts will be prepared in accordance with the IFRS based CIPFA Code of Practice on Local Authority Accounting. In the Council's own *single entity accounts, the interests in companies and other entities are classified as Long-Term Investments and valued at fair value.*

Impact on the Financial Statements

2.8. As part of approving a new accounting policy the Committee needs to take into account the impact on the financial statements. The need to produce group accounts will not impact on the financial statements of the County Council itself. Instead it will require a number of additional statements to be produced and considered alongside the traditional accounts. Collectively these are expected to increase the length of the overall accounts by 10-20 pages.

2.9. The additional financial statements we will be required to produce are:

- An overview of the group accounts;
- Group comprehensive income and expenditure statement;
- Group movement in reserves statement;
- Group balance sheet;
- Group cash flow statement;
- A reconciliation between the County Council's accounts and the group accounts;
- Group tax expenses;
- Group companies' disclosure; and
- A series of notes to the group balance sheet.

2.10. The Committee are asked to approve the accounting policy for group accounts as set out in paragraph 2.7.

3. Leases

Overview of Leases

3.1. In addition to purchasing any assets outright, there are two types of leases that organisations can enter into to obtain access to the assets they need to undertake their operations. These are called finance leases and operating leases and the accounting treatment for each is different. Finance leases are effectively accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases are treated as 'pay as you go' arrangements, with rental payments charged to the revenue account over the term of the lease.

3.2. The 2008 financial crisis raised concerns about transparency of information which was off-balance sheet. A particular concern was that for a lot of organisations there was no balance sheet recognition of leased assets or any consequent liabilities for lessees (the body using the asset) where they were classified as 'operating leases'.

3.3. In response to this, IFRS 16 'Leases' was issued by the International Accounting Standards Board (IASB) in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. This effectively means that for all substantial leases the lessee has to account for them as an acquisition.

3.4. IFRS16 was initially intended to be adopted for local government in the 2020/21 financial year. However, due to COVID-19, implementation has been deferred to the 2021/22 financial year, with an effective date of 1 April 2021.

Key Issues

3.5. IFRS 16 requires all lessee leases (with two exemptions noted in paragraph 3.9) to be accounted for as finance leases, recognising the rights to use an asset i.e. accounted for as though the Authority had purchased the asset. These changes to IFRS16 do not apply where WCC is acting as the lessor.

3.6. To account for a leased asset as though we had purchased it requires us to determine three things to support the initial recognition of the asset:

- The value of the asset being leased;
- How much to charge to the income and expenditure account each year for the amount of the assets value used; and
- How the asset will be financed.

3.7. From 2021/22, the amount of annual lease payments will be split between an interest element and the principal element. Our proposed approach to determining the initial value of the asset will be to use the 'cost model' which in effect equates the value of the leased asset as the sum of the principal repayments within the lease contract. This approach works for all assets except where assets are leased for a concessionary or nil consideration. Where leases are provided at a concessionary rate (e.g. peppercorn) or nil consideration this approach would result in an understatement of the value of the asset. Consequently, assets from such arrangements will need to be recognised at Fair Value, but with no associated liability. In essence they will be treated as donated assets. These valuations will be undertaken as part of the Council's independent asset valuation contract.

3.8. After the initial recognition of leased assets on the Council's balance sheet the assets will be revalued and accounted for in accordance with the Council's current valuation policies for property, plant and equipment assets.

3.9. There are two exemptions for lessees from applying this standard. These are:

1) Short term leases and;
2) Leases where the value of the asset that the lease relates to is low.

3.10. The definitions we propose to apply when using these exemptions are:

1) Short term leases will be defined as those with a lease term of twelve months or less at the date of their initial recognition and;
2) Leases where the value of the asset that the lease relates to is low will be defined as those where the value of the asset is less than £6,000. The Code and IFRS16 allows organisations to determine a monetary amount that would constitute low value and the proposed level of £6,000 is the Council's approved de-minimis level for capital expenditure.

Exempt leases will continue to be accounted for as operating leases.

3.11. As part of our current accounting policies we make an annual charge to revenue for the use of assets through our depreciation policy. Our depreciation policy is that assets are depreciated on a straight-line basis over their useful life, with a full year's depreciation beginning the year after their initial recognition on the balance sheet. These proposals do not change this policy other than the requirement within IFRS16 to depreciate leased assets on a straight-line basis using the lower of the remaining useful life of the asset or the remaining years on the lease liability.

3.12. The introduction of increased numbers of finance leases onto the balance sheet will increase the level of capital spend to be financed i.e. the Capital Financing Requirement. Without any other change this would increase the Minimum Revenue Provision (MRP) set aside as part of annual budget setting to repay debt. However, the Council is already making lease rental payments for these assets and therefore an adjustment will be made to avoid budgets having to be set aside to fund the assets twice. The adjustment will be equal to the principal element of the lease payment so providing for a "net nil" effect on the revenue budget.

Leasing Policy for 2021/22

3.13. The proposed accounting policy in respect of leases that will be in place for the 2021/22 accounts is as follows:

Leases are a contract, or part of a contract, that conveys a right to use an asset for a period of time in exchange for consideration. The right to use the asset and the associated liability are recognised in the balance sheet and accounted for as finance leases.

Measurement
For the majority of leased assets we will use the 'cost model' to determine the initial value, which equates the value of the leased asset to the sum of the principal repayments within the lease contract. The exception is where leases are provided at a concessionary rate. Assets from such arrangements will be recognised at Fair Value, but with no associated liability. Our valuation process is led by the Council's Property Management Team, who commission external valuers as needed.

After the initial recognition of leased assets on the Council's balance sheet the assets will be revalued and accounted for in accordance with the approach set out in our accounting policy for Property, Plant and Equipment.

Finance leases
We deal with finance leases where we are the lessee in the same way as other capital spending. We include these as assets in the Balance Sheet and charge depreciation on them. Rentals are apportioned between a charge for the acquisition of the asset (recognised as a liability in the Balance Sheet at the start of the lease and written down annually as rent becomes payable) and a finance charge made each year to the CIES. There are two exceptions to the treatment of operating rather than finance leases, these are:
1) Short term leases will be defined as those with a lease term of twelve months or less at the date of their initial recognition and;
2) Leases where the value of the asset is less than £6,000.

Operating leases
Lease rental payments (as lessee) are charged evenly to the CIES over the life of the lease.
Where we grant an operating lease (as lessor) over a property or item of plant or equipment, the asset is retained on the Balance Sheet and the rental income is credited to the CIES as it is due.

We do not disclose contingent rents as they are not material to the financial statements.

Lease Activity

3.14. Our records show that we have 163 leases, licences and other arrangements that we have entered into in relation to property/estates. A minimum 35 properties that will be classified as right-of-use assets plus 17 larger vehicles and pieces of equipment which we will be bringing on to the Asset Register and including in the Property, Plant and Equipment line in the Balance Sheet. Work is still on-going to quantify the effect of this change. We are reviewing the contracts for the remaining 128 property/estates arrangements to identify the value of the asset and whether it fits into either of the exemption categories. Work is also on-going to identify all leased assets held by schools.

Impact on the Financial Statements in 2020/21

3.15. The 2020/21 Financial Statements will not be prepared on an IFRS16 basis. The only impact will be the requirement to state that the standard has been issued but not yet adopted, similar to the wording contained in the 2019/20 Statement of Accounts. We will, however, disclose the estimated financial impact of moving to an IFRS16 compliant basis for reporting.

3.16. The implementation of this standard will not require the authority to restate the 2020/21 accounts on an IFRS16 compliant basis. Instead we will make opening balance adjustments on 1 April 2021 for the 2021/22 accounts. It is therefore important that the accounting policy is agreed at the earliest opportunity to allow the estimated financial impact to be assessed and the data collated on an on-going basis rather than trying to undertake the work retrospectively.

Impact on the Financial Statement in 2021/22

3.17. The application of IFRS16 will have an impact on various parts of the 2021/22 Financial Statements in terms of both the presentation of the accounts and additional disclosure notes. As well as the opening balance adjustments the elements we will need to disclose are:

- Right-of-use assets as a separate line on the balance sheet or as a sub-set of the Property Plant and Equipment line with a reconciling disclosure note;
- Lease liabilities as a separate line on the balance sheet or within other liabilities with a reconciling disclosure note;

- Depreciation of right of use assets within the relevant service expenditure line in the net cost of services;
- Interest payable on right-of-use assets;
- MRP on right-of-use assets;
- The cost of short-term leases and low value leases;
- Total cash outflow for leases;
- Carrying amount of right-of-use assets by class of asset;
- Financial liability and maturity disclosures;
- The nature of leasing activities; and
- Leases signed but not yet commenced.

4. Financial Implications

4.1. There will be no direct financial impact for the Council as a result of the introduction of the new accounting standard for leasing or flowing from the introduction of group accounts.

4.2. There will be an additional resource commitment for the Finance Service in producing the group accounts and in particular in undertaking the due diligence on any use of unaudited company management accounting information as part of the consolidation process. The level of this is currently being quantified and will form an initial commitment for the use of any income generated as a result of the investment.

4.3. There will also be an additional resource commitment initially to create and then maintain a Council leasing register. This is currently being managed from within existing resources, but a request for additional funding to the Council Change Fund will be made if further capacity is required.

4.4. IFRS16 will increase the number of assets on our balance sheet required to be valued at Fair Value on an annual basis in future years, this increase may impact on the contract cost to procure independent valuations of our assets. It is not possible to assess the scale of the cost at this stage as the contract will be retendered before the new standard is applied.

5. Environmental Implications

5.1. None.

6. Background Papers

6.1. None.

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No elected members have been consulted in the preparation of this report.

Agenda Item 5

Audit & Standards Committee

Update on Preparations for EU Transition

5 November 2020

Recommendation(s)

1. That the Committee note and comment upon the approach being taken in preparation for EU Transition

1. Executive Summary

1.1 31st December 2020 represents the end of the formal 'transition period' following the agreement for the UK to leave the European Union in January 2020. The transition period consists of a set of domestic preparations alongside an ongoing process of discussion and negotiation with the European Union regarding the future basis of trade and other relationships.

1.2 Following this period there is the prospect of the UK signing a Trade Deal with the EU, as well as a risk that one is not signed.

1.3 Following a request made at the last committee, this report provides an update regarding the work of the County Council in its preparations and responses to the end of the EU Transition period following the UK's departure from the European Union. The Committee is asked to consider this report in the context of its role in assessing the effectiveness of the Council's control and assurance framework

2. Background and Context

2.1 The move towards the end of the transition period poses a variety of changes which will need to be understood in terms of the longer-term impacts on the operating context for local government.

2.2 The transfer of legislation from EU to UK statute will continue, but there is a need to look ahead to see how post transition this (or indeed new) legislation could affect alignment with the EU in future. To a certain extent this is not an area which the County Council can influence unless it has a direct bearing on local authority operational matters. Yet the potential for adaptation and amendments to legislation affecting local businesses and communities after the transition period ends cannot be discounted.

2.3 Overall, the development of legislation and guidance which commenced during the transition period, and the changes that may result after January 2021 will result in a new category of law referenced as "retained EU legislation" – this is EU legislation that formed part of domestic law immediately before the end of the transition period and will continue to have effect in domestic law afterwards unless and until parliament modifies it or the Supreme Court departs from it and will include adjustments to EU law which have been adopted during the transition period. It is not possible to definitively identify retained EU law at this time – there is no government data set, the wording of the withdrawal agreement references “any enactment” which can include parts of a statute or set of regulations but not other parts of the same legislation, and, most importantly the definition of retained EU legislation specifically references law in force immediately before the end of the transition period, which may mean the position changes before 31 December. However, we are continuing to track the statutory instruments and guidance as published to understand as best we can the developing position, and any changes.

2.4 Although alignment will remain a key issue for the ongoing relationship between the United Kingdom and the EU, the reality is that Parliament will be able to make changes to legislation from January 2021. Whilst the withdrawal agreement recognises that the principle of the supremacy of EU law will in effect continue to apply in the UK after the end of the transition period in certain specific situations, we will see changes over time that will be impacted by trade agreements and government policies.

2.5 There will be a long-term requirement to monitor legislation although increasingly specific “EU Exit” legislative questions will diminish, and it is of course the case that the review of legislation to ensure legal compliance is standard operational practice. Key areas identified as requiring particular focus will include procurement, data protection requirements and state aid (the rules that govern how far public money can be utilised to support or provide a benefit to private entities). State aid law does have a major impact on council initiatives in terms of risk, access to finance, insurance and legal structure. The legal team working closely with the Corporate Policy team will keep the legislative position under review and will continue to link with national networks and forums which are considering such issues

3. WCC response

3.1 The main issues which are reflected in the work of the County Council and its partners are as follows:

- Impact of EU Settlement Scheme plus new immigration system/workers schemes on a) Council services (i.e. Social Care) and b) local economy.
- Impact of Trade arrangements on the local, regional and national economy especially in relation to export focused sectors.
- Evolution of post-transition legislation and regulation – the ‘long-tail’ of EU law & policy (e.g. Data & Information, weights/measures, health & safety, state aid, trading standards etc)

3.2 In anticipation of these challenges the Council has recently stood back up the ‘Trade and EU Matters’ Group (previously called the Brexit Group) which draws key individuals from across each of the directorates to coordinate responses and to update on developments related to the EU transition. The

Strategic Director for Communities retains the role of Lead Brexit Officer and chairs the Group, retaining overall accountability for the preparations of the council.

3.3 Each individual directorate and service remains responsible for the implementation of responses to the UK's exit from the European Union however the Group acts as the main mechanism by which the overall approach is coordinated and supported.

3.4 To date the Group's focus has primarily been on the following areas:

- **Signposting -** A role in signposting to key information: covering mostly our local communities needs in terms of visiting nations within the EU, Emigration etc. Our role will be to ensure that our public facing information is either up to date or linked to the Governments own information;
- **Legislative review -** Reviewing and updating information regarding legislation which is adapted after transition;
- **Information** - Providing information and guidance to local businesses and our own providers (incl. Social care);and
- **Supply chains -** Reviewing our supply chains and contracts to ensure we remain on a stable footing.

3.5 There will also be an ongoing residual role in monitoring national developments around trade deals and major legislation (e.g. Internal Market Bill) which may change in future and affect Warwickshire as a place.

3.6 Most of these developments are a national matter which will require local authorities to respond and adapt to in the light of developments in guidance and amendments to the law.

3.7 The wider impacts from the end of the transition period in relation to trade and economic impacts will influence the Warwickshire economy, and this may include the supply chains related to key West Midlands manufacturing sectors. Although this is something within our view as a local authority it is outside the scope of this report.

4.0 Assurance framework

4.1 The Trade & EU Matters Group oversees a dedicated Risk Register and Communications plan in relation to the EU Transition. It has structured its activity in relation to the following key areas:

- People & residents – covering areas such as the EU Settlement Scheme, New Immigration Regime;
- Business/Wider Economy – covering business contingency and supply chains;
- Public Services & WCC – direct impacts on staff and services, including mitigation of effects on services;

- Regulatory Services – focused on the regulatory services such as trading standards;
- Transport – reflecting emerging needs around the provision of infrastructure in support of a new trading system; and
- Communication – ongoing delivery of communications which can signpost residents and those likely to be affected by EU transition to key information and guidance available from HM Government websites.

4.2 This framework ensures that cross-cutting issues and key messages can be effectively communicated in public and through our key partners.

4.3 The risk register is currently being updated by relevant leads.

4.4 In addition there is an extensive set of partnership arrangements in place to ensure insight and issues are shared and communicated and that key messages and communications approaches are shared and understood. For example, work being undertaken with the Growth Hub to inform local businesses around their responsibilities.

4.5 Overall, this approach recognises that beyond direct mitigation effects with our staff and services, the main area of effect from our approach is to ensure that our key audiences are signposted to key areas of information and guidance held nationally.

4.6 Additionally, whilst the County Council continues to work to ensure that key messages and signposting are shared with appropriate audiences within Warwickshire, contingency planning for a ‘no deal is becoming increasingly important.’ This is not easy to anticipate in terms of the main issues for the County Council operations. It would remain a national matter with HM Government ultimately responsible for advising on the courses of action and responses to key issues which could emerge. The Trade and EU Matters Group will continue to closely monitor the situation over coming weeks

4.7 Close working with the Coventry, Solihull & Warwickshire Emergency Planning team also supports this contingency planning.

5 Timescales associated with the decision and next steps

5.1 EU transition will continue to be a live and growing area of focus for WCC in the coming weeks and months. Preparation and activity have mobilised and will continue to match pace and respond as required.

5.2 A further report on progress will be submitted to full Council in December.

6. Financial Implications

a. There are no immediate direct financial implications for the Council as a result of this report. The position will be kept under review through the Group as more detail emerges and reported to Members as part of quarterly budget monitoring initially. Any longer-term financial impacts will be picked up through the annual process for refreshing the Medium Term Financial Strategy.

7. Environmental Implications

7.1. There are no immediate direct environmental implications for the Council as a result of this report. The position will be kept under review as it is clear that changes to food standards, environmental requirements and health and safety regulation are likely to develop as legislation diverges from EU law.

Appendices

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The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

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Audit and Standards Committee
Updated Work Programme 2020 - 2021

Item	Lead Officer	Date of meeting
Internal Audit Progress Report (Exempt)	Paul Clarke	5 November 2020
Update on Preparations for EU Transition (Brexit)	Ben Odams	5 November 2020
Changes to Accounting Policies	Andrew Harper	5 November 2020
Local Authority Financial Reporting and External Audit: Independent Review	Virginia Rennie	5 November 2020
External Auditors' Progress Report and Sector Update	Virginia Rennie	5 November 2020
LGA Member Code of Conduct Consultation (Review of Councillor Code of Conduct)	Jane Pollard	25 March 2021
Constitution Refresh Including Contract Standing Orders	Nichola Vine	25 March 2021
Internal Audit Plan 2021-22	Paul Clarke	25 March 2021
Updated Code of Corporate Governance	Sarah Duxbury	25 March 2021
Annual Audit Letter (Grant Thornton)	Virginia Rennie	25 March 2021
Audit and Standards Committee Annual Report	John Cole	July 2021

Agenda Item 6

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Agenda Item 9

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Agenda Item 10

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