

Warwickshire County Council and Warwickshire Pension Fund Audit Progress Report and Sector Update

Year ending 31 March 2021

24 September 2021



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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.

Progress at September 2021

Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in March 2021 and we issued a detailed audit plan in June 2021, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

The Accounts and Audit (Amendment) Regulations 2021 pushed back the date by which principal authorities are required to publish audited financial statements to 30 September. In 2020 this date was pushed back to 30 November.

Our audit fieldwork commenced in July 2021 and while it was our intention to deliver the audit by the 30 September deadline, it was evident by the end of July that this was no longer feasible.

In regard to the reasons for the delay, the audits of all local government clients have been impacted by a number of factors. These include the increased audit work required to deliver a compliant audit, the change in the NAO code which has increased the volume of value for money work, and the Covid 19 pandemic which has required auditors to work remotely. This has significantly added to the capacity required to deliver all public sector audits including those in local government audit. The situation has been exacerbated by additional work being required on 2020/21 NHS audits. While we continue to recruit to expand our capacity it is not possible to meet all these demands in the short term.

We also note that when MHCLG consulted on this deadline that we, as well as other audit suppliers, communicated to them clearly that it was not possible to meet this deadline for all local government clients due to the delays previously caused to the 2019/20 audits by Covid 19.

The envisaged delay was discussed with management in July and a revised timetable agreed with an anticipated completion of October 2021, to be followed by sign off at the meeting of the full Council in December 2021.

Members should be assured that the Council will still be able to meet its statutory duty to publish its accounts by 30 September by publishing draft accounts and including a note stating that the audit has been delayed.

We are of course, very sorry, that we are unable to meet the 30 September 2021 deadline set by MHCLG. We would like to place on record our sincere thanks to officers who have been understanding of the circumstances we are currently working in and have continued to provide their undeterred support throughout.

Value for Money

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

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

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

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

Progress at September 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 is due to be completed by the November deadline.

Meetings

We continue to meet with Finance Officers at regular intervals and last met in early September to discuss audit progress and deliverables.

Members should be aware that John Gregory has recently reduced his number of working hours and therefore a necessary and proportionate reduction was also made to his portfolio of clients. As a result, Ciaran McLaughlin will be taking on responsibility for the Key Audit Partner role. Ciaran will be formally introduced to the Strategic Director for Resources and Assistant Director of Finance on 21 September 2021 and looks forward to working with officers and members. Ciaran has 30 years experience of auditing local authorities and NHS bodies and leads on the delivery of financial reporting advisory work for the firm.

Results of Audit Work to date

The findings of our audit work to date, and the impact on our reporting, are summarised in the table below:

	Work performed	Summary of key findings
Management override of controls Council and Pension Fund	<p>We have applied a new approach to our testing of journal entries in 2020/21, utilising the inflo software. This provides the engagement team with effective assurance around the completeness of the population subject to testing and introduces more sophisticated risk assessment of journals for indications of management override of controls.</p> <p>We are currently in the process of ‘ingesting’ the journals population for consideration and risk assessment by the engagement team.</p>	<p>We have not identified any significant issues from our audit work performed to date on management override of controls.</p>
Valuation of land, buildings and investment property Council	<p>We have received the valuation report prepared by management’s expert and working papers to support the 2020/21 revaluation exercise.</p> <p>Consistent with the prior period, we have engaged Montagu Evans LLP as our auditor’s valuation expert to support the engagement team in review of the pertinent assumptions and to provide robust challenge of management. Our expert have completed their review of the work undertaken by management’s expert and we will follow this up with the necessary inquiries.</p> <p>Investment properties are below our materiality level following in year disposals and therefore these are now out of scope.</p>	<p>We have not identified any significant issues from our audit work performed to date on the valuation of land, buildings and investment properties.</p>
Valuation of the net defined benefit pension liability Council	<p>We have substantially completed our review of the significant estimate of the net defined benefit pension liability, with the support of our auditor’s expert PwC. In line with recommendations made in PwC’s report, there are a number of areas that require further inquiry and we will work with management and their actuarial expert to resolve these.</p> <p>As part of our approach, we have requested assurance from the pension fund auditor in relation to processes and controls in place at the fund level.</p>	<p>We have not identified any significant issues from our audit work performed to date on the valuation of the net defined benefit pension liability.</p>

	Work performed	Summary of key findings
Valuation of Level 3 investments Pension Fund	<p>As a result of detailed substantive testing performed we have identified a significant difference in the value of level 3 investments held with fund manager HarbourVest and the value recorded in the financial statements (understated). As this value is material at £46.65m an amendment has been proposed and agreed by management.</p> <p>It should be noted that this is due to a timing issue and not indicative of a fundamental control weakness at the Pension Fund.</p> <p>As a result of the above amendment, the County Council and other large employers are obtaining revised IAS 19 valuation reports in order to calculate their respective net defined benefit pension liabilities.</p>	<p>Other than the issue outlined adjacent, no further matters have been identified as a result of our testing of investments.</p> <p>We will work with the pension fund to determine the relevant amendment to the financial statements and consider any changes to the process which could be implemented in 2021/22 in order to circumvent this issue going forward.</p>
Other areas Council and Pension Fund	<p>Our work on non-significant risk areas of the audit, including material balances and transactions and other scoped areas is substantially complete for the pension fund and well progressed for the Council.</p>	<p>We have not identified any significant issues from our audit work performed to date in other areas.</p>
Technical review of financial statements Council and Pension Fund	<p>As part of our internal risk management procedures for large and complex clients, the financial statements of the Council and Pension Fund are subject to a technical review by our financial reporting team every two years. In the current year, the financial statements of the Council have been reviewed. The engagement team have discussed points raised with officers and provided formal responses to the financial reporting team.</p>	<p>Overall, no significant points were raised as a result of the technical review, with only three 'other' points raised. This is a reflection of the high quality of the draft financial statements prepared by the Council.</p>
Value for money Council	<p>We have started to assess in detail the arrangements in place at the authority to secure value for money against the three criteria of financial sustainability, governance and improving the 3 E's (economy, efficiency and effectiveness). As part of our approach we are concurrently drafting the relevant excerpts for the Auditors Annual Report.</p> <p>Management have provided an extensive suite of documentation and supporting evidence in order to facilitate our assessment.</p>	<p>Consistent with the risk assessment communicated in our audit plan, we have not identified any indications of significant value for money weaknesses to date.</p>
IT audit Council and Pension Fund	<p>Our dedicated IT audit team have performed a detailed IT general controls review of key systems at the Council and Pension Fund including the Agresso general ledger, YourHR (iTrent), Active Directory and Altair.</p>	<p>The findings of the IT audit team includes one significant deficiency, and a number of deficiencies and improvement opportunities. We are working with management to evaluate the impact of these findings on our financial statements audit.</p>

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
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 Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	June 2021	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit & Standards Committee.	November 2021 (Revised date)	Not yet due
Auditors Report This is the opinion on your financial statements and will be signed following the meeting of the County Council in December.	December 2021	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	December 2021	Not yet due

Sector Update

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

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

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

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

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

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

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

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	3,181.254
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	378.846
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	298.584
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	299.433
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	340.858
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	2,363.926
Total	329.937	2,111.187	1,791.153	1,503.848	1,126.777	6,862.902



The figures are available in full here:
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	1,215.708
Council tax	399.037	0.000	217.633	191.219	232.727	1,040.616
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	2,137.728
Commercial income	82.448	24.159	120.629	204.211	52.154	483.600
Other	33.494	39.947	27.163	53.664	45.166	199.435
Total	1,307.903	259.029	1,113.524	1,053.190	1,343.441	5,077.087

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

2019/20 audited accounts – Public Sector Audit Appointments

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

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

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

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

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

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



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closed on 8 July.



The news article can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

