Audit Progress Report and Sector Update

London Borough of Brent and Pension Fund
Year ending 31 March 2020

29 July 2020

Contents

Introduction

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This paper provides the Audit & Standards Advisory 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.

Members of the Audit & Standards Advisory 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 Partner or Engagement Managers.

2019/20 financial statements audit

2019/20 Financial statements audit – original and revised timescales

As set out in our 2019/20 Audit Plan we had planned to complete the financial statements audit by the end of July. The impact of the pandemic has meant we started the audit two weeks later than planned. Despite the impact of Covid-19, we are making good progress with the audit and as at 17 July we are 65% complete and we anticipate to be finished with our substantive work by 7 August with only review and closing procedures to be completed.

We will report the results of our work in the Audit Findings Report to be presented at the Committee meeting on 8 September 2020 and we will aim to give our opinion on the Statement of Accounts soon after that meeting. Pages 7-12 of this report give a summary of the progress with our audit fieldwork.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan in March 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. On 20 April 2020 issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19. We provide an update on Covid-19 on page 6 of the report in relation to impact on working arrangements, on the accounts and audit opinions, and in relation to changes in reporting requirements. The additional work we are carrying out in relation to the Covid-19 significant risk is included in our progress update, page 7.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and issue our Value For Money Conclusion at the same time as the audit opinion. We are reviewing the Council’s response to the financial implications of Covid 19 in detail as part of this work.

The NAO consultation on a new Code of Audit Practice (the “Code”) has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/

Covid-19 update

Impact on working arrangements

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home.
- We will be working remotely for the duration of your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- There may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of Covid-19.

Impact on accounts and audit opinions

There are a number of key issues which your finance team will have had to consider as part of the year-end closedown and accounts production:

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- Valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- Disclosure of impact in narrative report.
- Disclosure of critical judgements and material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements

- The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31st August 2020.
- For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Progress at 17 July 2020

2019/20 Financial Statements Audit

The table below sets out our progress on the audit as at 17 July 2020.

Significant risk	Planned approach	Progress
Covid– 19 (Council and PF) 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.	We will: • work 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 assess the implications on our audit approach; • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances, and Level 3 asset valuations for the Pension Fund; • evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure for the Pension Fund; • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	We have: • have worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 5 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council/groups' property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; and • engaged the use of auditor experts for asset valuations. We are: • ensuring to obtain sufficient audit evidence through remote technology; • evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussing with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

Significant risk	Planned approach	Progress
Fraud in revenue and expenditure recognition **(Council and PF)** 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 ISA (UK) 240, 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	We have not identified any changes to our assessment reported in the audit plan.
Management override of controls **(Council and PF)** Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority and the Pension Fund face 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 for both the Group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk and unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We have: • evaluated the design effectiveness of management controls over journals; and • analysed the journals listing and determine the criteria for selecting high risk and unusual journals. We are in the process of: • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gaining an understanding of the accounting estimates and critical judgements applied made by management and considering their reasonableness with regard to corroborative evidence; and • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risk	Planned approach	Progress

Valuation of land and buildings (Council)
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1,401m) and the sensitivity of the estimate to changes in key assumptions.
 	
Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
 	
We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.
	We will:
	• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• evaluate the competence, capabilities and objectivity of the valuation expert;
	• discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out;
	• engage our own valuer expert, Gerald Eve, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
	• evaluate the assumptions made by the 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.
		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 relevant valuer to confirm the basis on which the valuation was carried out; and
		• engaged our own valuer expert, Gerald Eve, to provide commentary on:
		    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
		    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
		We are in the process of:
		• challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
		• testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and
		• evaluating 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.

Significant risk	Planned approach	Progress
Valuation of pension fund net liability (Council) The pension fund net liability, as reflected in the Authority's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£925.7m) 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, and a key audit matter.significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; and • undertake 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.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate 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; and • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. We are in the process of: • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing 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; and • undertaking 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.

Significant risk	Planned approach	Progress
Valuation of Level 3 investments (PF) The Fund re-values 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 (£95m) 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, and a key audit matter.	We will: • evaluate management's processes for valuing Level 3 investments; • review 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 request year-end confirmations from investment managers and custodian; • for a sample of investments, test 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 will reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • where available, we will review investment manager service auditor reports on design effectiveness of internal controls.	We have: • evaluated management's processes and assumptions for the calculation of the estimate; • reviewed the nature and basis of estimated values and considered 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; and • written to the relevant investment managers and custodian. We are in the process of: • testing the valuation for a sample of investments selected.

Other risks identified

In our 2019/20 Audit Plan we identified a risk in relation to the implementation of IFRS 16 Leases which was to be adopted from 1 April 2020. Due to the pandemic the implementation of IFRS 16 has been delayed by a year. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 even though implementation is deferred to 2021/22 and we are agreeing the required disclosures with management.

Other audit areas

In addition to our work on the significant risks, work is also in progress in the following areas:

- PPE additions
- In-year depreciation
- Cash
- Expenditure (including welfare expenditure)
- Employee benefits
- Debtors and bad debt provision
- Creditors
- Leases
- Reserves
- Financial instruments, investments and borrowings
- PFI liabilities
- Provisions
- Financial statements disclosures
- Pooled budgets
- Related parties
- Whole of Government Accounts

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The planning of the certification work for the 2019/20 claim is underway and we intend to complete our work by the original deadline of 30 November deadline. Although it should be noted that, in response to the impact of the Covid-19 pandemic, the DwP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit Committee in our Certification Letter in January 2021.

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

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). We have yet to receive from MHCLG guidance for the certification work for the 2019/20 return.

Meetings

We met with Finance Officers in June as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in July to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

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

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Director of Finance, including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit & Standards Advisory Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Further on in this report we share the findings of the FRC review on the audit of the Council's 2018/19 financial statements.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter		
• Confirming audit fee for 2019/20.	April 2019	Complete
• Advise of additional fee for 2019/20	January 2020	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Standards Advisory Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 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.	March 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit and Standards Advisory Committee.	September 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2020	Not yet due

FRC review of the audit of Brent Council's 2018/19 financial statements and 2018/19 VfM Conclusion work

The FRC's Audit Quality Review team has completed its review of the 2018/19 audit of the Council's financial statements and of the VfM Conclusion work. Their report sets out an assessment of the audit quality, key findings and scope of the review.

Audit quality assessment

Area	Audit quality assessment
Financial Statements Audit	Improvements required
VfM Arrangements Conclusion	Good

Key findings

Valuation of Property, Plant & Equipment ('PPE')	The audit team performed insufficient procedures to conclude that the valuation of other land and buildings was free from material misstatement. A sample of individual valuations was tested to validate source data provided by management. This should have been extended to test the key valuation assumptions applied by the valuer.
Audit of service expenditure	The audit team did not demonstrate sufficient understanding of the nature of the population of two expense categories and as a result insufficient levels of testing were performed.

There were no key findings to report in relation to the VfM arrangements conclusion.

Good practice

Value for Money arrangements – financial outturn and sustainability	The Audit Findings Report benchmarked the London Borough's total general fund and earmarked reserves balances. It provided Councillors and the public an easily understandable comparison between LBB and its peers.

Scope of the review

KEY AUDIT MATTERS	• Valuation of PPE • Valuation of the pension fund net liability • Management over-ride of controls • Value for Money arrangements – financial outturn and sustainability
OTHER AUDIT AREAS	• Group procedures • Receivables impairment allowance • First year audit • Expenditure recognition • Quality of communications with the Audit Committee[3] • Presentation and disclosure of the financial statements • Adoption of new accounting standards • Completion and audit quality control procedures
AUDIT MATERIALITY	£20 million

Impact of the FRC's review on the audit opinion on the 2018/19 financial statements

The FRC's focus of its review is mainly on the valuation of PPE, where it considers that more work should done in this area as it is a very large number, and subject to estimation and management judgement. Members will of course note that PPE values do not in any way impact on General Fund expenditure or impact Council Tax levels, as all adjustments are reversed out under statute. We consider that in 2018/19 we undertook significantly more work on this area than we had planned to do at the start of the audit, and more work than had been the practice previously within this and other firms. This year we have also engaged our own auditor expert valuer, Gerald Eve, to provide additional challenge of the work carried out by management's expert valuer, Wilkes, Head and Eve. We believe this will address the points made by the FRC.

The remaining points raised in the review are more about our processes, and we set out how we are responding to each point in turn.

None of the points raised by the FRC, in totality, impact on the soundness of the true and fair opinion issued on the 2018/19 financial statements.

Key finding 1 – Valuation of Property, Plant and Equipment

Issue – The valuation of PPE is complex and involves the use of significant assumptions. The audit team should challenge key assumptions on individual valuations, to conclude whether there is any material misstatement to the valuation of PPE. The audit team performed insufficient procedures to conclude that the valuation of other land and buildings was free from material misstatement. In particular, individual valuations should have been sample tested with key assumptions such as MEA, rebuild rates and obsolescence assessed and corroborated to appropriate evidence.

Our response and work performed – We carried out a wide range of work in respect of PPE, undertaking significantly more work than planned to do at the start of the audit, and more work than had been the practice previously within the firm. We would bring out that the FRC required that we did some further specific work over the key assumptions in respect of other land and buildings.

Specifically as part of the 2019/20 audit, we will evidence the challenge we provide to the valuer and Council in greater detail in our working papers and the PPE workbook. We have also engaged a specialist valuation firm to support our challenge of management's external valuer. This will address the issues raised by the FRC.

Key finding 2 – Audit of service expenditure

Issue – In the public sector, auditors should focus their consideration of the risk of error on expenditure. The validity of recorded expenditure is of importance to users of the accounts as financial planning, including savings plans, will be based on it. Expenditure should be disaggregated and tested in its constituent parts. Insufficient audit procedures were performed over the occurrence and completeness of service expenditure.

Our response and work performed – We will ensure that we disaggregate and test expenditure of this nature in its constituent parts. We have worked with the finance team to remove reversing entries from transaction listings, and we are testing debit and credit entries separately rather than testing the net position. This reflects the FRC's desire for auditor's to carry out further audit testing.

Other finding 1 – Fraud risk

Issue – Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting entries by overriding controls that otherwise appear to be operating effectively. The level of risk will vary from entity to entity, but the risk is present in all entities and appropriate testing and audit procedures should be performed.

- IT control environment – There was no evidence that the audit team considered the impact on its planned procedures to address the risk of management override and whether changes were required in the response to the risks. The audit team should have evaluated these findings for their impact on the audit approach.
- Journals testing – The audit team did not evidence its testing of the appropriateness of any journal entries included within the £112m multi journal and should have clearly recorded why this was a reasonable and supportable adjustment. The audit team should also have reported this significant deficiency in internal control to the Audit Committee.

Our response and work performed

- IT control environment – Our IT specialist's assessment was that all deficiencies identified had only risk of inconsequential material misstatements and we agreed with this assessment. We reported three of the deficiencies in our 2018/19 Audit Findings Report, flagging them as internal control findings that did not have a material impact on the financial statements but should be addressed to improve the Council's internal controls. Specifically, in relation to the segregation of duties deficiency identified we knew from our enquiries that; either the actual responsibilities allocated to individuals did not allow breach segregation of duties as there would be one element of the process they were not permitted to carry out; or the conflicts identified were ones the Council is happy to tolerate the risk, e.g. to upload and post journals, given the nature of the journals concerned. We are happy that no further work is required for us to be undertaken in terms of this matter.

- Journals testing – We initially identified the £112m multi journal to be unusual because it was created and posted by the same individual, who was not on the approved poster list. However, after our initial investigations we identified the journals were raised to resolve the issue where the AIM income system could not automatically transfer income to the correct bank accounts. Income had been allocated to a dummy account in the ledger during the year and the journal exercise was used to transfer the income to the correct bank accounts recorded in the ledger for the preparation of the 2018/19 financial statements. Our cash testing confirmed that the income recorded in the ledger against each bank account agreed to direct bank confirmations with NatWest and we therefore did not carry out detailed testing of these journals. Furthermore, the journal transactions were calculated, processed and authorised by an individual from one of the Council's service organisations, hence the individual not being on the approved poster list, and on this basis we concluded that the journals were in fact not unusual. The FRC expect that our thought process in relation to this work should have been more clearly evidenced on the audit file.

Other finding 2 – Impairment loss provision

Issue – The calculation of impairment loss provisions involves a high level of judgement and estimation and relies upon source data inputs and various management assumptions. The audit team should perform sufficient appropriate audit procedures and challenge key assumptions in order to conclude that any provision is free from material misstatement and management bias. Insufficient audit procedures were performed over the impairment loss provision.

Our response and work performed – We will ensure to perform additional testing around the completeness and accuracy, as well as the assumptions in respect of impairment loss provisions.

Other finding 3 – Prior period comparatives

Issue – Comparative information is important for users of the financial statements as it enables them to compare performance and identify trends. Auditors need to ensure such information is both accurate and consistent with the prior period signed financial statements. Where changes are made, they should ensure these are appropriately disclosed and audit procedures performed to ensure the restated amounts are accurate. The audit team performed insufficient procedures to conclude that the restated reclassification of comparatives was accurate. Furthermore, there was no evidence of the audit team's challenge of management, over the lack of required disclosures supporting the important restatement made.

Our response and work performed – We will ensure we provided appropriate evidence of our consideration of restated comparatives and related disclosures. In this year's audit we have clearly documented the restatement of the CIES in our audit file and we are working with management to ensure the required disclosures are made to explain the reason for the restatement.

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

Covid-19 and Local Government

Public services have been at the forefront of the emergency response to the Coronavirus (Covid-19) including local government. Very few local government services have not been impacted by the Covid-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to Covid-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

Covid-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

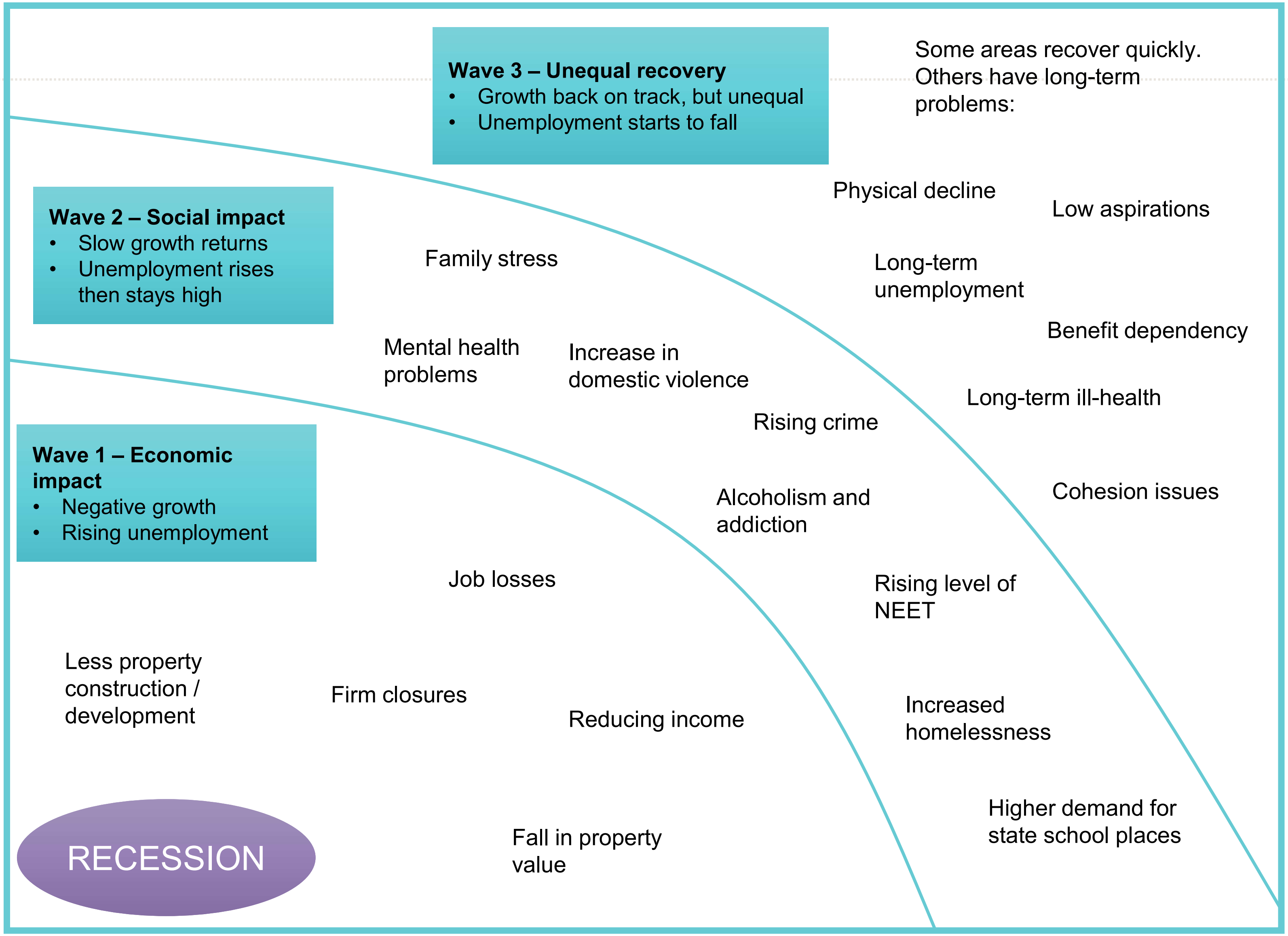
Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of Covid-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by Covid-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of Covid-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of Covid-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from Covid-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of Covid-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from Covid-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

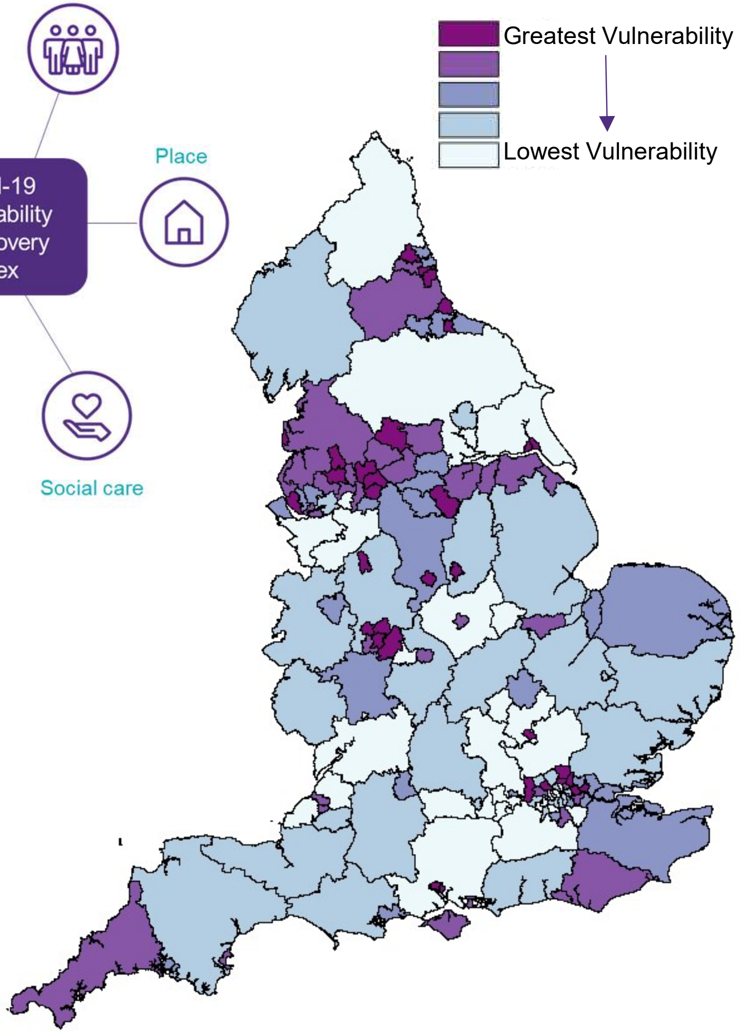
Can we learn from previous recessions?



Source: Audit Commission

Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



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

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.

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and to existing government priorities such as levelling up, whilst future proofing against Covid-related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development.	Recovery plan implementation.
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release.
Planning for standing up closed services.	Place-based leadership – working with other public services, private and third sector to redefine place.
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising.	Redefining front-line services, council as match-maker, convener and incentivisor as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability.	More long-term and strategic partnerships and funding models for third sector.
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line.	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs.
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions.	Review and update Local Plan.
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments.
Renewed strategic financial planning and focus on financial management.	Emergency planning reviews and learning.
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning.
Government monitoring regime on additional funding for councils and Covid funding administered by councils.	Increase in outcomes based procurement and focus on social value.
Business cases for new investments or for Government.	Significant investment in digital capabilities – channel shift, remote working, etc.
HR capacity and welfare, building health and safety checks.	

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf

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:

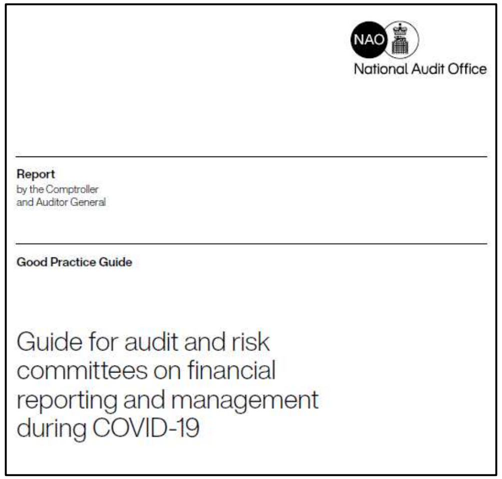
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

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

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.

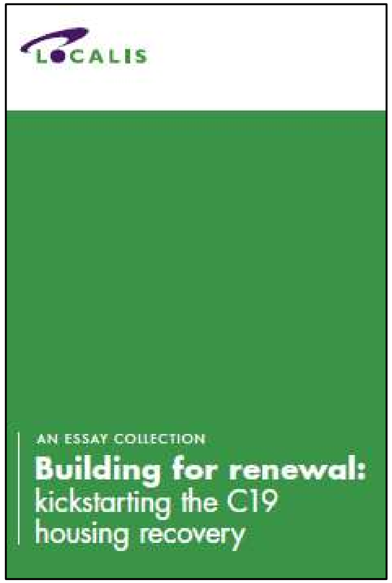
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development 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/

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/

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.

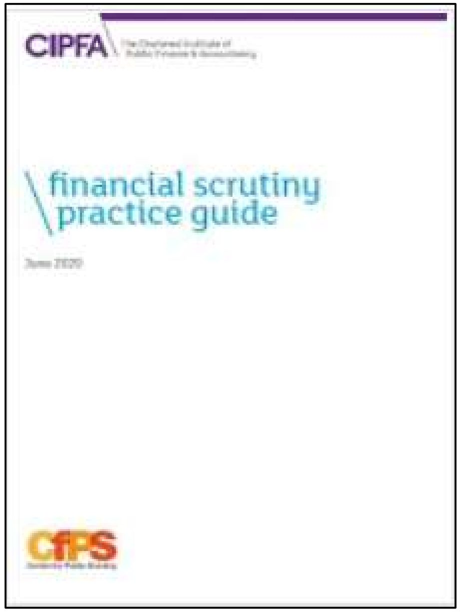
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

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

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report "draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams".

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that "PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme".

The full report can be obtained from the PSAA website:

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