

# Audit Progress Report and Sector Update

London Borough of Brent and Pension Fund  
Year ending 31 March 2021

8 December 2020



# Contents

<b>Section</b>	<b>Page</b>
Introduction	3
Progress at December 2020	4
Audit deliverables	5
Sector update	6

---

# Introduction

---



**Paul Dossett, Partner**

T 020 7728 3180  
E [paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)



**Sophia Brown, Senior Audit Manager (Authority)**

T 020 7728 3179  
E [sophia.y.brown@uk.gt.com](mailto:sophia.y.brown@uk.gt.com)



**Liulu Chen, Audit Manager (Pension Fund)**

T 020 7865 2561  
E [liulu.chen@uk.gt.com](mailto:liulu.chen@uk.gt.com)

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](http://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.

# Progress at December 2020

## Financial Statements Audit

We issued the opinions on the Council and Pension Fund financial statements on 11 September 2020.

We will issue the audit certificate once work on the Whole of Government consolidation pack audit procedures and review of the Pension Fund annual report are complete. The work is on track to meet the respective deadlines in early December.

Our work on the 2020/21 financial statements audit will commence in the New Year.

## Other areas – Meetings

We met with the Director of Finance and officers in November as part of our regular liaison meetings. We also met with your Chief Executive in September to discuss the Council's strategic priorities and plans. These meetings form part of our planning process for the 2020/21 financial statements audit.

## Certification of claims and returns

Our work on the certification of the Council's annual Housing Benefit subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP) is underway. It should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline to 31 January 2021.

Our work on the Teachers' Pensions return is complete and going through our review and quality processes, on track to meet the reporting deadline at the end of November.

## 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

Our work on the Council's 2019/20 Value for Money conclusion is complete and we issued an unqualified Value for Money conclusion on 11 September 2020.

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 ended on 2 September 2020. It can be accessed through the NAO website:

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

---

# Audit deliverables

---

## 2020/21 Deliverables

## Planned Date

## Status

---

### Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2020/21 financial statements.

March 2021

Not yet due

---

### 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 2021

Not yet due

---

### Audit Findings Report

The Audit Findings Report will be reported to the September Audit and Standards Advisory Committee.

September 2021

Not yet due

---

### Auditors Report

This is the opinion on your financial statement, annual governance statement and value for money conclusion.

September 2021

Not yet due

---

### Annual Audit Letter

This letter communicates the key issues arising from our work.

October 2021

Not yet due

---

---

# Sector update

---

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

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

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

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

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



Public Sector



Local  
government

# The Redmond Review

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

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

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

### Key recommendations in the report include:

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

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

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

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

### How you can respond to the Review

One of the recommendations was for local authorities to implement:

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

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

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

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

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

# The Redmond Review – Local Government audit and financial reporting

## Scope

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

## Purpose

To assess the:

- Effectiveness of audit in local authorities; and
- Transparency of financial report.

## Context – Why the need for a review?

Local audit is facing an unprecedented set of challenges:

- Accounts have grown far more complex
- Authorities are engaging in more innovative/unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight, even without Covid-19 pressures
- Retention of audit staff is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical and urgent reform is needed

## Areas of focus – It is a wide-ranging review

- The expectations gap
- Audit and wider assurance
- Audit quality
- The financial reporting framework
- Auditor reporting

The review had 156 responses, over 100 interviews were held, the report runs to 83 pages with 23 recommendations.

## The system is not working



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

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

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

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

## Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19 this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new firms to the local authority market has not been realised.



# The Redmond Review – Local Government audit and financial reporting

## Detailed findings

### Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systematic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman).
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

### Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority, based on their level of audit risk, has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors, including other parts of the public sector, have significantly risen.
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

### The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.

### Financial reporting is overly complex/not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting, e.g.:
  - Asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value.
  - Going concern disclosures are perceived to be less relevant in a local authority context than financial resilience.

### Governance and transparency of reporting needs improvement

- The ability of audit committees, which mostly lack independent, technically qualified members, to consider effectively audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective, is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

### There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves. Auditors coming through the system are not developing wider understanding of LG context.
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC.
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/LASAAC.

# The Redmond Review – Local Government audit and financial reporting

## Sir Tony's recommendations

### A call for action

- **A new regulator** – The Office of Local Audit and Regulation to replace the FRC and PSAA.
- **Scope to increase fees** – The current fee structure for local audit to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- **Move back to a September deadline** – The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- **Accounts simplification** – CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.
- Recognition of the **role of authorities in improving governance and reporting**; and
- Development of **audited and reconciled accounts summaries**.

### Where next?

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation.

### Grant Thornton's View

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

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

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

## Value for Money - Key changes

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

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

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

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

## Implications of the changes

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

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

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

The Code can be accessed here:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)

