

Audit Progress Report and Sector Update

Warwick District Council
Year ending 31 March 2019

2 April 2019

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Introduction



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This paper provides the Finance and Audit Scrutiny Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Finance and Audit Scrutiny Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

PSAA Contract Monitoring

Warwick District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress overview – at March 2019

Financial Statements Audit

In 2017/18, the statutory date for publication of audited local government accounts was brought forward to 31st July, across the whole sector. The Authority did not achieve this deadline and the financial statement audit opinion was given on 12th December 2018.

We have met with your finance team on a number of occasions in order to discuss and monitor progress. The finance team have embraced the use of Inflo, a system which we are using for the first time this year in order to administer and monitor audit requests.

We have completed our planning and interim procedures for the 2018/19 financial statements audit and have issued a detailed audit plan to this meeting of the F&AS Committee (2nd April). The plan sets out our proposed approach to the audit of the Council's 2018/19 financial statements.

More detail is given on the following slides regarding progress however in summary:

- 1) The interim audit work has progressed well. A timetable for completion of any outstanding requests has been agreed with management.
- 2) The standard of working papers and responses to audit requests have been comprehensive and timely.

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 are included in our Audit Plan. We identified two significant Value for Money Risks – future savings plans and the publication of the 2018/19 financial statements.

We will be completing our VFM review in April and June 2019.

We will report our work in our Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

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. The certification work for the 2018/19 claim has not yet started. We will agree our overall project plan for completing this work with officers.

Meetings

We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with you quarterly with the Deputy Chief Executive to discuss overall audit progress and 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 helps to ensure that members of your Finance Team are 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.

Progress - Financial statements audit

1. Audit planning

We have carried out initial planning for the 2018/19 financial statements audit and have issued a detailed audit plan to this F&AS Committee (2nd April), setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

Keeping updated with current issues affecting you is critical to the audit process. This is a continuous process and any further risks identified since the audit plan has been issued will be communicated to this committee along with our proposed audit response.

2. Inflo

A part of our continued investment to ensure the audit process is as smooth and efficient as possible, we have entered into a partnership with Inflo Software, a purpose build cloud based solution to help co-ordinate your audit.

The finance team have been using Inflo fully and we have received very positive feedback as to how this has helped to 'streamline' the audit process in respect of the collection of evidence and working papers. We would like to take this opportunity to thank the team for their proactive approach and timely feedback.

3. Interim audit

Our interim audit has been carried out in two on-site visits.

Week commencing 11th February 2019

We made 31 information requests to the Council. All requests have been responded to. An additional request has subsequently been made to the Finance team.

We have received the letter sent to the external valuer and an explanation in relation to the Appendices referred to but not included within the letter. A response has been provided by the accountancy team on 15th March and will be subject to review by the audit team.

Week commencing 11th March 2019

We made 32 information requests to the Council. 6 of these are outstanding at 18th March 2019. Outstanding requests relate to:

- Operating expenditure -- 2 of the outstanding requests relate to evidence provided to support operating expenditure, this evidence has been provided on 21st March and is subject to review by the audit team.
- Payroll substantive analytical review-- 2 of the outstanding requests relate to payroll data to support our analytical review.

- Council tax valuation information – we have requested the Valuation Office report.
- Financial instruments – we have received supporting documentation for material loans made by the Council to other organisations. We met with the finance team and requested a summary paper is also prepared which details the proposed draft accounting disclosures for the 18/19 financial statements in line with IFRS 15 and the updated IFRS 9. We will review this in April.

Next steps...

We will continue to work with the council to clear outstanding points relating to the interim audit.

The final accounts audit is due to begin on the 10th June 2019 with findings reported to you in our Audit Findings Report. We will present our report at the July Finance and Audit Scrutiny Committee meeting and issue our audit opinion by the 31 July deadline.

We have started to populate Inflo with our audit requests in preparation for the receipt of the draft financial statements.

Project management

Inflo: cloud based software providing a new audit experience

A part of our continued investment to ensure the audit process is as smooth and efficient as possible, we have entered into a partnership with Inflo Software, a purpose build cloud based solution to help co-ordinate your audit.



Project management (Info continued)

The module within Info which is used for the collection of working papers and the administration of audit requests is known as 'request and share' We use the request and share function across our client base. An example of the key processes involved and screenshots from live Info user files are shown below:

1. The audit team set up the key contacts for the project. These will be the individuals who will provide the responses to audit requests along with the audit team contacts

Name	Email	Role	Last Login	Added to Engagement
Joshua Williams	josh.williams@uhg.gl.com	Sector	01/02/2019	24/01/2019
Thomas Greensill	Thomas.A.Greensill@uhg.gl.com	Sector	22/02/2019	16/12/2018
Mark Steele	mark.steele@uhg.gl.com	Engagement Leader	16/04/2018	16/12/2018
Mary Wilson	mary.wilson@uhg.gl.com	Manager	05/03/2019	16/12/2018

Showing 4 of 4 entries

Name	Email	Last Login	Added to Engagement
		30/01/2019	24/01/2019
		01/02/2019	16/12/2018

Showing 2 of 2 entries

3. The client contact responds to the request, uploads relevant supporting information and submits back to the to the audit team.

IT environment questions

Due Date 29 January 2019 **Submitted On** 22 January 2019
Responsible Engagement Team Thomas Greensill
Responsible Client Team [redacted]
Description As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment. You may need to forward this to a relevant contact within your IT department.

Comments
[redacted] 22 January 2019 12:08 UTC
Documents downloaded and will be passed to IT colleagues for review and completion

Files
2.docx 24.77 KB Thomas Greensill 17 Jan 2019
1.docx 54.93 KB Thomas Greensill 17 Jan 2019

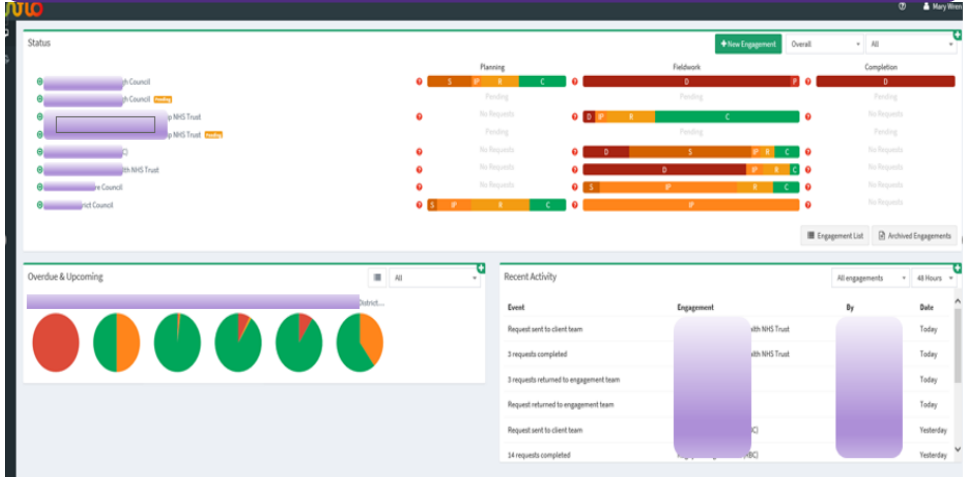
Report **Close**

2. The audit team details the working paper or information required. Once submitted on Info a notification email is sent to the nominated client contact to indicate they have a task waiting.

IT environment questions

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Submitted On 22 January 2019
Responsible Engagement Team Thomas Greensill
Responsible Client Team [redacted]
Description As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment.

4. Inflow provides a user friendly dashboard view which will indicate the status of information requests.



Info Dashboard as at 18th March 2019

Interim visit 1 – Week commencing 11th February 2019.



Interim 1 - w/c 11th February	
Grant revenues	Revised Complete
Additional Information: Grant revenues	Complete
Additional Information: Grant revenues	Revised Complete
Additional Information: Grant revenues Email Update to Peter	Complete
Months 1-10 payroll	Complete
Additional Information: Months 1-10 payroll - Monthly Summary Documents	Complete
Additional Information: Months 1-10 payroll - Monthly CT117's	Complete
Additional Information: FTE Analysis Months 1-10 payroll	Complete
Additional Information: Months 1-10 payroll 2017/18 Pensions Actuary Report & Note	Complete
Months 1-10 expenditure	Complete
Sample: Months 1-10 expenditure	Complete
Additional Information: Months 1-10 expenditure other 10 months separate excel sheets	Complete
Housing benefits - module 2	Complete
Months 1-10 housing benefit payments	Complete
PPE valuer instructions	Complete
Additional Information: PPE valuer instructions - emails to CJ	Revised Complete
Months 1-10 fees and charges	Complete
Sample: Months 1-10 fees and charges	Complete
Precept demand letters	Complete
Opening balances	Complete
Internal audit reports	Complete
Additional Information: Internal audit reports	Complete
Informing the Audit Risk Assessment	Complete
Systems notes / flowcharts	Complete
Investment details	Complete
IT general controls	Complete
Finance and Audit Scrutiny Committee Terms of Reference	Complete
Shared Legal Services Contract	Complete
YTD balance sheet and CIES	Complete
Additional Information: YTD balance sheet and CIES	Complete
2018/19 Year End Closing Programme	Complete

Interim visit 2 – Week commencing 11th March 2019.



Interim 2 - w/c 11th March	
Bank account details	Complete
Months 1-10 expenditure evidence	Revised Complete
Additional Information: Months 1-10 expenditure evidence	Revised Complete
Additional Information: Months 1-10 expenditure evidence - Capital Misconduct Query in relation to samples	Revised Complete
Additional Information: Months 1-10 expenditure evidence Q&A & Q&A Extra Information	In Progress Revised Complete
Additional Information: Months 1-10 expenditure evidence Credits	In Progress Revised Complete
Months 1-10 fees and charges evidence	Complete
Additional Information: Months 1-10 fees and charges evidence	Complete
Month 11 expenditure	Revised Complete
Month 11 fees and charges	Revised Complete
Month 11 housing benefit payments	Revised Complete
Month 11 payroll	Revised Complete
Month 1-10 Payroll query	In Progress Revised Complete
Additional Information: Pensions Actuary Communications	Revised Complete
Additional Information: Month 11 payroll FTE Analysis	In Progress Revised Complete
Register of interests	Revised Complete
Register of Gifts and Hospitality	Revised Complete
IFRS 9 and IFRS 15	Revised Complete
Additional Information: IFRS 9 and IFRS 15	Revised Complete
Additional Information: IFRS 9 and IFRS 15	Revised Complete
Loans given to Gelliford and Kenilworth School	Revised Complete
Additional Information: Loans given to Gelliford and Kenilworth School	Revised Complete
PPE valuer instructions appendices	Complete
Significant Business Risk Register	Revised Complete
Committee Paper Deadlines	Complete
New 2018/19 Closedown Guidance	Complete
Q3 Internal Audit reports	Complete
De-minimis for accruals	Revised Complete
Pensions Liability Valuation process	In Progress Revised Complete
Headquarters Re-location Notice	Revised Complete
Council Tax	In Progress Revised Complete
Heritage assets insurance schedule 2018/19	Revised Complete

2017/18 Recommendations



As part of the 2017/18 financial statements audit process we identified 9 recommendations of sufficient importance to report to those charged with governance for the Council. These were included in the Annual Audit Letter (AAL) and presented to the Finance and Audit Scrutiny Committee on 5th March 2019. A brief update on the progress made has been provided by management and is included in the table below.

Assessment	Issue and risk	Recommendations
	Valuation arrangements. We identified a number of weaknesses in the arrangement over the valuation of assets. This has led to a number of material changes in the financial statements.	<p>The Council needs to ensure that it formally documents the process for valuations, and that the valuer is provided with detailed instructions for the annual valuation exercise. There should be clear working papers demonstrating that the Council has provided the valuer with all of the appropriate information and that it has considered whether the information provided back from the valuer is complete and reasonable. The Council may also wish to review the timing of these valuations, because at present valuations are undertaken at varying points in the year, making the process more complicated than we see at other similar Councils</p> <p>Management response</p> <ul style="list-style-type: none"> The information to be sought from the valuer, and timing thereof, will be considered by the Head of Finance and Principal Accountants in early December ahead of a formal instruction to the valuer being issued. The valuation process will be pro-actively monitored and shared with the Accountancy Team. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - As part of the January update, the timing of this recommendation has slipped into January. This will continued to be monitored on a regular basis. As reported at 2nd April 2019 - Valuation work commenced but much cannot be completed until early April. Valuation request letter formally shared with auditors.
	Impairment review. There were no formal arrangements in place at the Council to demonstrate that all assets had been considered for impairment as required by the Code.	<p>The arrangements for an impairment review should be considered and documented. These arrangements should be implemented as part of the 2018/19 closedown process.</p> <p>Management response</p> <ul style="list-style-type: none"> The approach to the impairment review will be reviewed ahead of seeking information from the valuer (above). This will involved the full team and the Council's Estates Manager, and in accordance with the Code of Practice. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - As above, this will now be considered during January. As reported at 2nd April 2019 - Initial letter with valuers. Work on valuations commenced. Some further details being collated to send to valuers. Impairment details being sought from SMT+.




2017/18 Recommendations (continued)

Assessment	Issue and risk	Recommendations
	Timeliness of financial reporting	<p>The report of the Chief Executive includes a detailed action plan to ensure that the issues that have occurred this year are not repeated. It is key that this action plan is implemented and considered in light of the recommendations we have made as part of this AFR to ensure that all issues are addressed as part of the production of the financial statements in future years.</p> <p>Management response</p> <ul style="list-style-type: none"> Progress on the action plan is being actively managed with weekly updates to CMT and monthly reports to Executive and Finance and Audit Scrutiny Committee. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - Regular updates are being provided. As reported at 2nd April 2019 - Alongside the Action Plan within the Chief Executive's report, the Accountancy Team have a more detailed plan that that was reported to Executive in January 2019 and is being kept up to date. Any dates at risk of being missed are being scrutinised and plans agreed to ensure completion of the task. Considered in detail at Principal Accountants Meeting 12/3/2019.
	Quality and completeness of evidence provided for audit. We have previously reported to members that the quality and completeness of working papers provided to the audit team during the financial statements has not been of the standard we would expect. We have discussed this with finance officers during the audit who now have a much greater understanding of what is required to produce an appropriate working paper.	<p>The Head of Finance should ensure that an appropriate training programme is in place for all officers that produce working papers to support the financial statements. The training should include the features of a good working paper and a reminder that a good working paper should enable another suitably qualified professional with no prior knowledge of the authority the means upon which to re-perform the work.</p> <p>Management response</p> <ul style="list-style-type: none"> Training on the production of quality working papers for all the Accountancy Team will be provided by the Final Accounts Project Manager early in the New Year. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - Following the dissemination and discussion of the closure plan with the accountancy team on the 4th January, training is planned to be provided. The training is being run by Rugby's training officer, and will be delivered to the Finance teams of Warwick, Rugby and Nuneaton on the 27th February. As reported at 2nd April 2019 - Working Paper requirements, and examples shared with the team and subject to discussion




2017/18 Recommendations (continued)

Assessment	Issue and risk	Recommendations
	Pension liabilities are a key estimate in the accounts. We have reviewed the estimation technique used in determining this estimate and are satisfied with the methodology used. We have noted that officers have not evidenced any formal challenge of the assumptions used by the actuary.	<p>A working paper should be provided at year end which demonstrates how the Council has considered the work of the actuary and its reasonableness.</p> <p>Management response</p> <ul style="list-style-type: none"> This has been discussed with the Pension Fund Actuaries. An approach is planned that will enable variances to be identified, challenged, and explained. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - No further progress to report. As reported at 2nd April 2019 - This is being explicitly included in Closedown plan.
	The accounting policies do not include a specific de minimis level for accruals of income and expenditure.	<p>Greater consideration should be given to whether more areas of the accounts would benefit from an increased reliance on estimation techniques to aid faster close.</p> <p>Management response</p> <ul style="list-style-type: none"> The accruals process will be reviewed early in 2019, ensuring all parties are clear about their responsibilities, timings, and relevant de minimis levels. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - The approach has been discussed with the audit team as part of the January planning visit, officers will need to undertake further work to demonstrate that the levels considered will not have a material impact on the accounts. As reported at 2nd April 2019 - New Accruals policy shared with all budget managers. The success of this policy, including time-saving, should be part of post mortem review of closure.




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

2017/18 Recommendations (continued)

Assessment	Issue and risk	Recommendations
	There are a number of areas highlighted throughout the AFR where we have agreed with officers that disclosure omissions will be corrected in future years.	<p>The Head of Finance should ensure that the identified areas are actioned in future years.</p> <p>Management response</p> <ul style="list-style-type: none"> The disclosure omissions will be reviewed as part of the preparation for closedown. It should be noted that some disclosure were previously removed with the support of the auditors as part of the “de-cluttering” of the accounts. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - No further progress to report As reported at 2nd April 2019 - This is being looked at by Project Manager.
	<p>Journals</p> <p>While we are satisfied that journals have not been used to override management controls, it is clear that improvements can still be made to the Council's overall journal control process to ensure that the issues that have occurred this year do not re-occur in future years. In particular, there needs to be appropriate, and evidenced review of journals prepared by contract staff.</p>	<p>Controls around journals should be improved, particularly in relation to those prepared by contract staff.</p> <p>Management response</p> <ul style="list-style-type: none"> The Head of Finance and Principal Accountants are reviewing journal controls to tighten procedures. New controls will be in place by January 2019. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - The new process has been mapped and is expected to go live in mid January. As reported at 2nd April 2019 - New process in place
	In reviewing the final set of financial statements the audit team identified a number of amendments had been made that were not in line with expectations. Officers were able to fully support these amendments however these were not material. In future, the Head of Finance might want to consider whether these type of changes are needed to the final set of financial statements, as a mechanism for further streamlining the process.	<p>In future years officers should keep a full list of any proposed changes to the draft financial statements presented for audit. This list should be reviewed by the Head of Finance, in discussion with the auditors prior to any changes being made to the ledger and final set of financial statements.</p> <p>Management response</p> <ul style="list-style-type: none"> Full controls will be implemented to ensure all proposed changes to the Statements are fully documented for discussion and agreement with the auditors. <p>Progress made against the recommendation</p> <ul style="list-style-type: none"> As reported at 5th March 2019 - No further progress to report. As reported at 2nd April 2019 - Full controls will be implemented to ensure all proposed changes to the Statements are fully documented for discussion and agreement with the auditors.

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	March 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Finance and Audit Scrutiny Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Complete - presented to this F&AS Committee (2 nd April 2019)
Audit progress report (and sector update) We will report to you if there are any findings from our interim audit work that need to be brought to your attention	March 2019	In Progress – presented to this F&AS Committee (2 nd April 2019)
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Council responsibilities

In our Audit Plan presented to the Finance and Audit Scrutiny Committee on 2nd April we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Sector Update

Councils are tackling a continuing drive 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 NHS 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 Finance and Audit Scrutiny 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

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

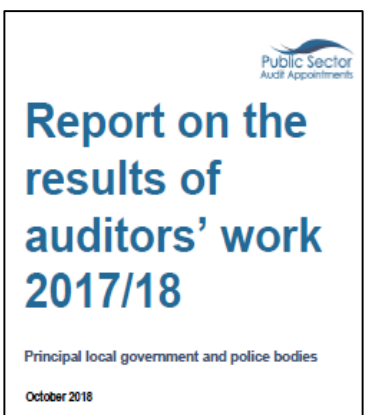
The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge questions:

How is the Authority identifying and monitoring improvements to be made to the 2018/19 financial statements process in order to achieve 'early close'?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



Report
by the Comptroller
and Auditor General

Cross-government

Local auditor reporting
in England 2018

National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

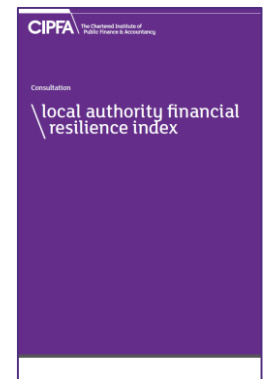
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Have members been briefed on the Council’s response to the Financial Resilience Index consultation?



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

• Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures

• Limited usefulness of auditors reports: 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

• Other powers and duties: implementing public interest reports in addition to VFM

• Restricted role of questions and objections: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

• Audit qualification not always acted on by those charged with governance: 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

• Audit committees not consistently effective: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

• Decreased audit fees: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

• Impact of audit independence rules: new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

• Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients—why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

