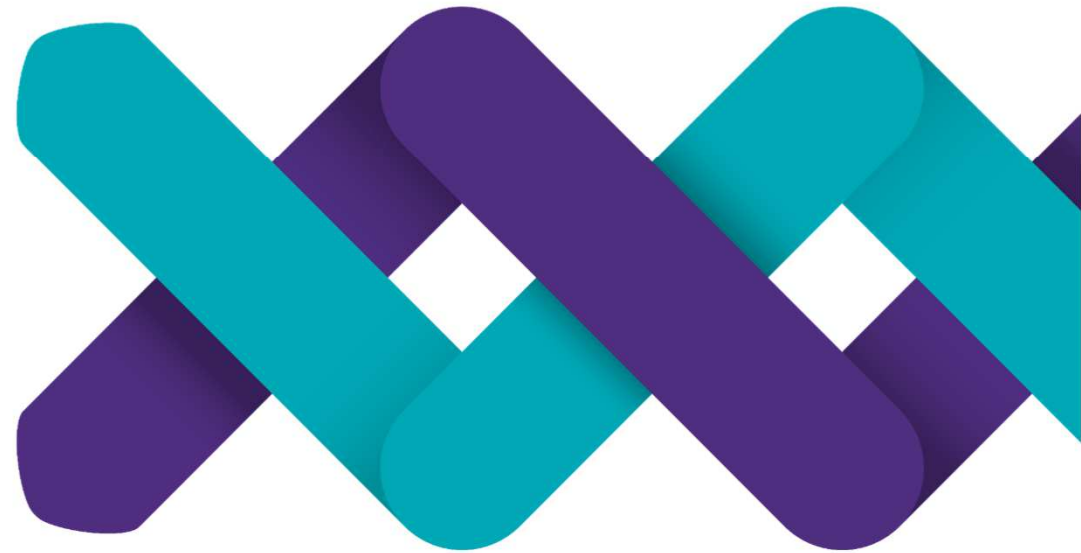


Audit Progress Report and Sector Update

Somerset County Council and Pension Fund
Year ending 31 March 2020

11 November 2020



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Introduction



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This paper provides the Audit 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 Pension Fund; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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

Progress at November 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your draft financial statements in July 2020.

In March 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We reported our initial findings to the September 2020 Audit Committee for both the Council and the Pension Fund noting that there were still areas that required completing prior to us issuing the Audit Opinion.

Specifically we were still working on obtaining sufficient assurance over the valuation of property assets. This work has been ongoing over a number of months and sufficient evidence to resolve our outstanding queries has still not been received. This lack of progress has been formally escalated to the Director of Finance and there remains a risk that the audit opinion will not be signed by 30 November 2020 and that material adjustments may be required to the financial statements. We will provide a further verbal update to the Audit Committee. Other areas that require completing before we issue our audit opinion are:

- obtain and review the letter of assurance from the pension fund auditor
- receipt of an updated management representation letter; and
- review of the final set of financial statements.

We have completed our substantive testing for the Pension fund and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters

- receipt of the updated management representation letter;
- review of the Annual Report; and
- review of the final set of financial statements

Covid-19

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. We included this issue in our audit plan, communicated to Those Charged with Governance in July 2020 setting out a significant financial statement risk in relation to Covid-19.

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 was included in our Audit Plan.

We will reported our work in the Audit Findings Report and aim to give our Value For Money conclusion by 30 November 2020. There has been no substantive change to the conclusion that was reported to Those Charged with Governance in 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 ran until 2 September 2020. The NAO will now analyse all consultation responses received and consider what changes are required to the draft guidance. Please see page 19 for more details.

Progress at November 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

Meetings

We continue to meet with Finance Officers as part of our regular 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 March 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 Committee.

In addition to the increased work highlighted above, the impact of Covid-19 pandemic and the need to produce the financial statements and undertake the audit of those statements remotely has resulted in audit procedures, taking additional time. This will necessitate further fees to be charged for the additional time taken to deliver the audit. As highlighted in the previous slide, we have also incurred significant additional time in seeking responses to our enquiries on the property valuations of the council. This additional work will also result in an additional fee to the Council. Once the quantum of this has been determined, we will discuss and agree with the Director of Finance and report the final fee to the next Audit 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.

Somerset County and Pension Fund Audit Deliverables

2019/20 Deliverables

	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	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 was reported to the September Audit Committee.	September 2020	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

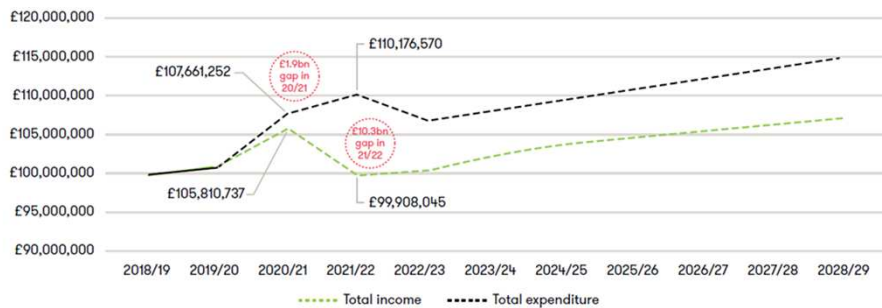
Covid-19 update – Grant Thornton

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

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



Source: Grant Thornton/CIPFA Financial Foresight

Financial Foresight (a Grant Thornton future look analytics platform building on our CFO Insights and Place Analytics data) forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

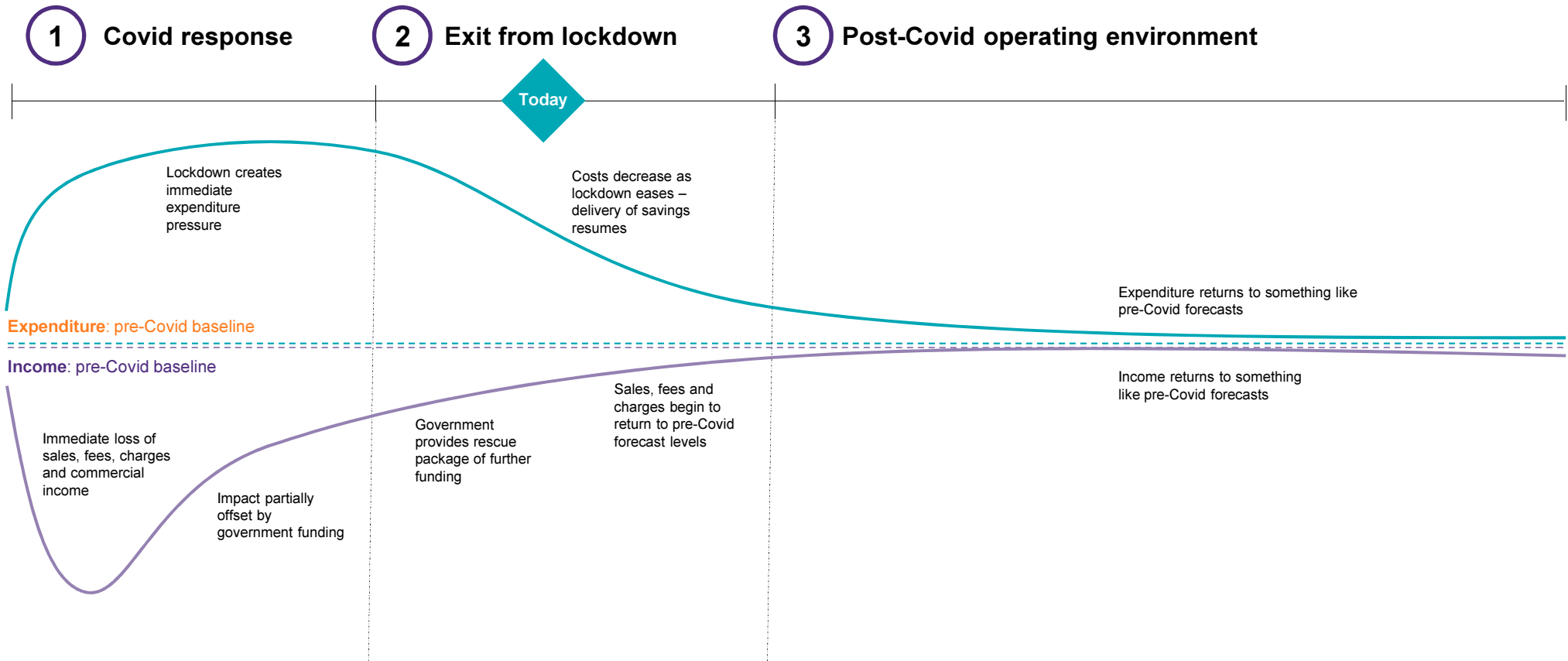
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services.

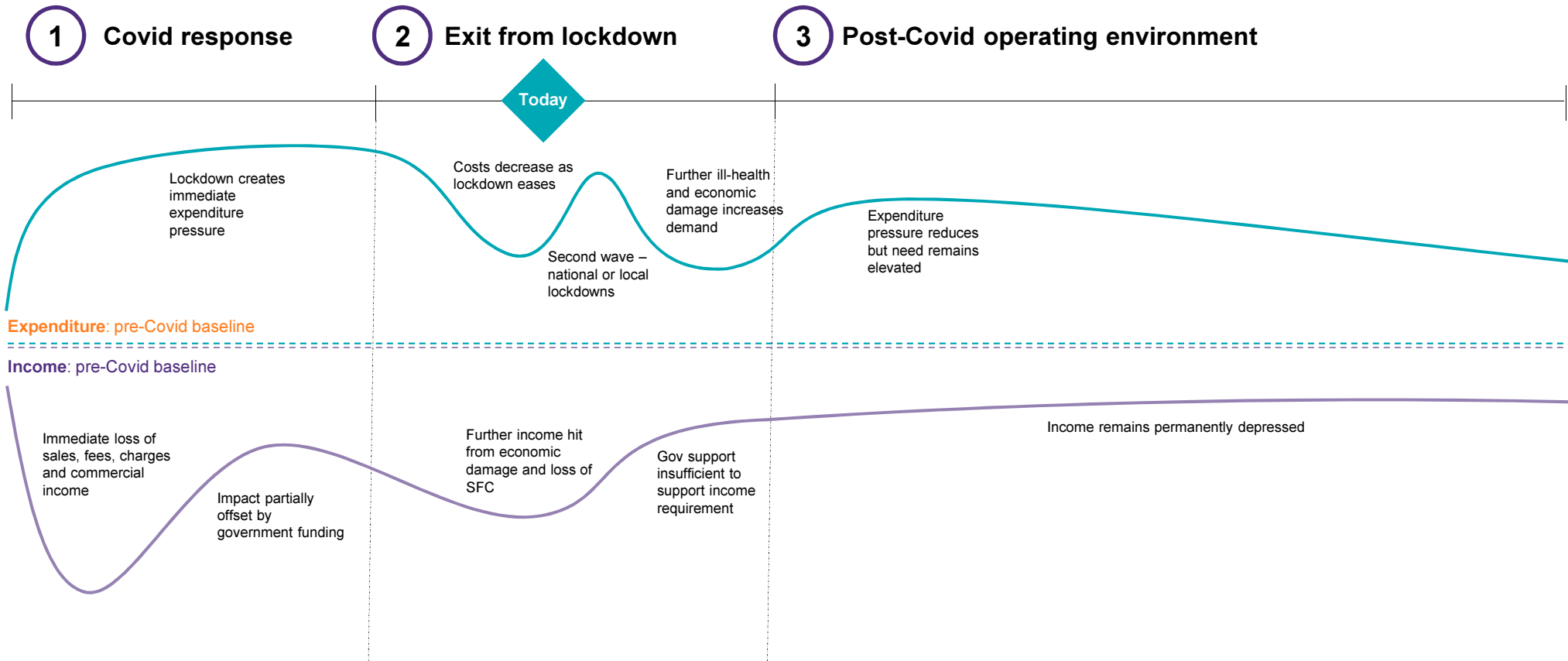
Example scenarios

Scenario 1 – swift return to normality









Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	 <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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

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:

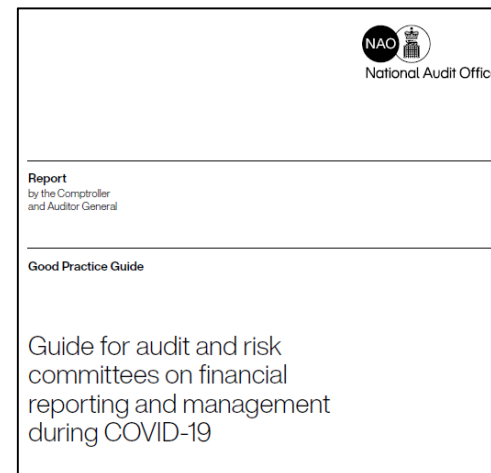
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

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/>



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:

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

Public Sector

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

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>

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 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.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

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 place-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 witnessed 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/>

Place-based growth

Unleashing counties' role in levelling up England

2020



Local government reorganisation in two-tier shire counties – County Councils’ Network

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

The report identifies considerations relating to:

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

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

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

CNN note “With councils in shire counties facing billions in rising costs for care services, alongside financial deficits caused by the Coronavirus pandemic, the study from PricewaterhouseCoopers (PwC) shows merging district and county councils in each area into a single unitary council could save £2.94bn over five years nationally.”

CNN go on to comment “The report concludes a single unitary in each area would reduce complexity and give communities a single unified voice to government. It would provide a clear point of contact for residents, businesses and a platform to ‘maximise’ the benefits of strategic economic growth and housing policy; integral to the ‘levelling-up’ agenda and securing devolution.

However, the report shows replacing county and districts with two unitary authorities in each area would reduce the financial benefit by two-thirds to £1bn over five years, with three unitary authorities delivering a net loss of £340m over the same period. A fourth scenario of a two-unitary and children’s trust model in each county would deliver a net five year saving of £269m.

Alongside a minimum £1.9bn in additional costs from splitting county council services, the report outlines the establishment of multiple unitary authorities in each area creates the risk of disruption to the safeguarding of vulnerable children, while ‘instability’ in care markets could impact on the quality and availability of support packages and care home placements.”



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

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

Local government reorganisation in two-tier shire counties – District Councils’ Network

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

The report comments “Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement.”

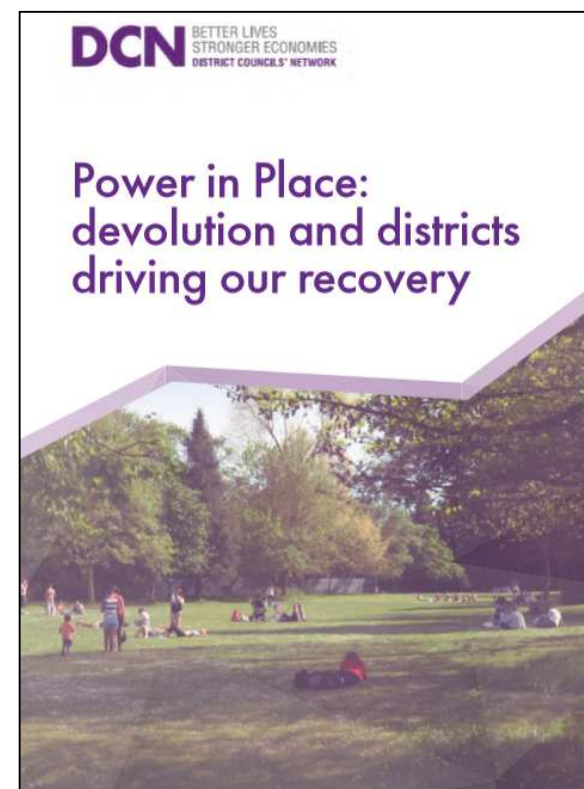
The report calls for the Devolution and Local Recovery White Paper to:

- 1) Deliver genuine devolution that moves quickly to drive local growth
- 2) Retain and build on the local capacity to deliver
- 3) Empower real-world economies
- 4) Continue to anchor local government in local communities
- 5) Reject false arguments that bigger local government is better or cheaper local government
- 6) Support strategic leadership across wider functional economic areas
- 7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.

The full report can be obtained from the District Councils’ Network website:

<https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf>



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>

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:

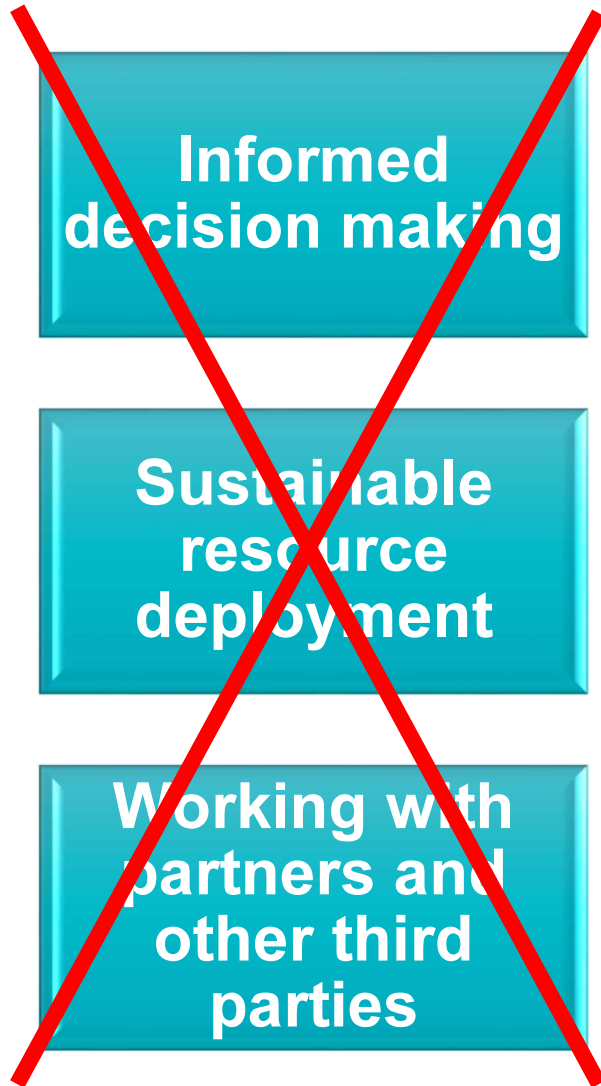
https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

How is value for money work changing ?



VFM arrangements commentary and recommendations

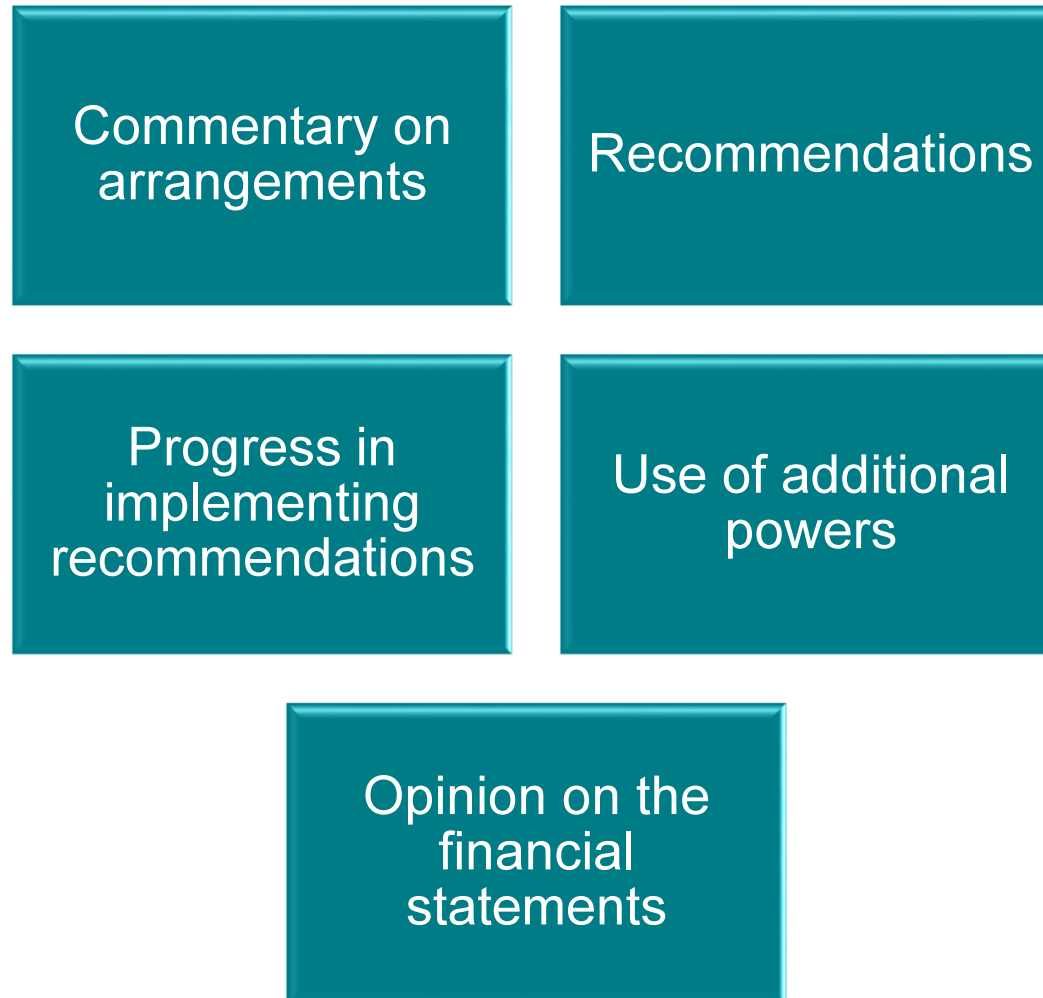
The three criteria have changed...



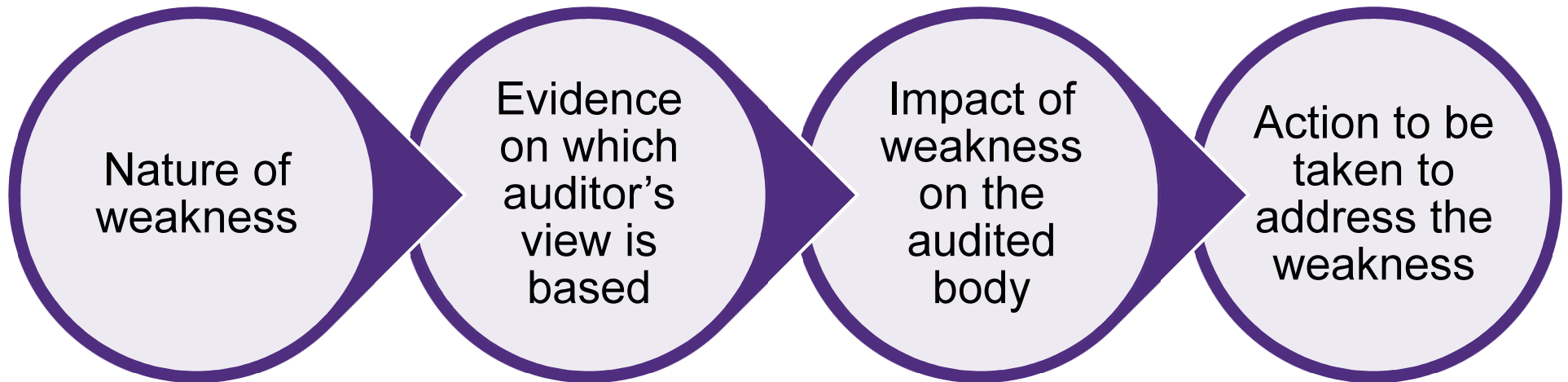
A key change in reporting...



So what is in an Auditor's Annual Report ?



Recommendations



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

