

Audit Progress Report and Sector Update

Doncaster Metropolitan Borough Council

Year ending 31 March 2020

9 July 2020



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Introduction

Gareth Mills**Engagement Lead**

T: 07825 115921

E: Gareth.mills@uk.gt.com

Perminder Sethi**Engagement Senior Manager**

T: 07768 935273

E: perminder.sethi@uk.gt.com

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
- 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 Gareth or Perminder.

The logo for Grant Thornton, consisting of the company name in white text on a dark purple rectangular background.

Covid-19 update

Impact on working arrangements:

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

Impact on accounts and audit opinions:

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a material uncertainty around Going Concern (this could also impact on the VFM conclusion)
- Impact on collectability of debt and assumptions made in bad debt provisions
- Impact on the valuation of Property, Plant and Equipment
- Impact on post-balance sheets events and consideration of the consequences of the virus post 31 March 2020 with some form of disclosure may be needed
- Disclosure of critical judgements
- Disclosure of material estimation uncertainties
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VFM conclusion)
- Impact on reporting to those charged with governance and signing arrangements.

Changes to the local government accounts production and audit timetable:

- The requirement for the public inspection period to include the first 10 working days of June has been removed. Instead local authorities must commence the public inspection period on or before the first working day of September 2020. This means that draft accounts must be approved by 31 August 2020 at the latest.
- Doncaster MBC published its draft 2019-20 accounts on 7 July 2020 ahead of the 31 August deadline.
- The audited accounts target date has moved from 31 July to 30 November 2020.
- Given this is a developing situation, there may be further changes to the accounts process for 2019-20 and we will be in regular dialogue with the finance team over the coming weeks.

Progress as at 9 July 2020

Financial Statements Audit

We started planning for the 2019-20 financial statements audit in late 2019 and issued a detailed Audit Plan, setting out our proposed approach to the audit of the Council's 2019-20 financial statements in January 2020.

We commenced our interim audit in February 2020 with a further visit in March. Our interim fieldwork included:

- Updating our review of the Council's control environment
- Updating our understanding of financial systems
- Reviewing Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The work completed and findings from our interim audit visit were reported in our Audit Progress Report and Sector Update dated 20 March 2020.

The revised statutory target for the issue of the 2019-20 opinion is 30 November 2020. We have discussed our Audit Plan and timetable with officers.

The final accounts audit commenced on 6 July with our findings to be reported in our Audit Findings (ISA260) Report. We received the Council's draft 2019-20 accounts on 7 July 2020.

We will present our Audit Findings Report at the October Audit Committee meeting and issue our audit opinion by the 30 November target date.

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 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 were included in our Audit Plan presented to the Audit Committee in January 2020.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the 30 November target date.

Other areas

Meetings

We continue to meet with senior officers including the Director of Corporate Resources 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.

Events

We provide a range of workshops, along with network events and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help 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.

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.	January 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 Plan Addendum We issued an updated Audit Plan to highlight the impact of Covid-19 on our audit approach.	April 2020	Complete
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the October Audit Committee.	October 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	By 30 November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

Sector Update

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

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

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

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

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

Public Sector

Local
government

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

The Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee's evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company's investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor's competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor's judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

