



Audit Update Report

Broxtowe Borough Council

Year ending 31 March 2020

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1. EXECUTIVE SUMMARY

Purpose of this report

This report provides the Governance, Audit and Standards Committee with an update on progress in delivering our responsibilities as your external auditor and also summarising key national publications that may be of interest to Members.

Changes in accounts and audit timetable

In April 2020 The Ministry of Housing, Communities and Local Government (MHLCG) confirmed that a statutory instrument (SI) amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The new effects of the amendments to the regulations are to change the dates that local authorities, are required to publish draft and final accounts, and to remove the 'common' period during which local electors can inspect and object to local authority accounts.

The key changes for publication of draft and final accounts are as follows:

- The deadline for authorities to publish draft financial statements moves from 31 May to **31 August 2020**.
- The deadline for publication of final (audited) financial statements moves from 31 July to **30 November 2020**.

The Council worked to an internal deadline of 30 June 2020 to publish its financial statements, significantly ahead of the revised publication deadline.

The requirement for a 'common' inspection period has been removed. The requirement to hold a 30-working-day inspection period remains, but for 2019/20 authorities can commence the inspection period at any time, except it must commence **no later than 1 September 2020**. This will allow authorities to produce their draft accounts and commence their inspection periods as soon as they are able. The Council's public inspection period commenced on 1 July 2020 and closed on 11 August 2020.

Progress to date

We agreed dates to complete the audit fieldwork during July / August and our work has progressed well. Covid19 has created challenges to our ability to work efficiently, but management have been both supportive and cooperative as our work has progressed.

We do not expect, however, to be able to conclude the audit until October / November. We rely on assurance from the pension fund auditor to support our work on pension assets and liabilities in the Council's financial statements. The pension fund auditor has informed us that they are not expected to provide this information to us until October.



2. SIGNIFICANT FINDINGS TO DATE

Set out below are the significant findings from our audit to date. These findings include:

- matters arising from the work performed to date regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	<p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• Accounting estimates impacting on amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <hr/> <p>Current Position</p> <p>The majority of our testing has been completed, with no matters arising.</p> <p>As management override could occur at any point up to the end of the audit, we need to perform our final procedures closer to the completion stage of the audit.</p> <hr/>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of land and buildings, investment properties (where applicable) and assets held for sale (where material)	<p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation.</p> <p>The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if applicable or material) and assets held for sale (if material) to be an area of significant audit risk.</p> <p>At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.</p> <hr/> <p>How we addressed this risk</p> <p>We have considered the Council's arrangements for ensuring that the valuation of land and buildings are reasonable and also considered whether valuation movements are in line with market expectations using available indices where these were available and appropriate to the Council's circumstances. We have assessed the competence, skills and experience of the valuer.</p> <p>We test a sample of revaluations in year to valuation reports and supporting calculation sheets to ensure these are consistent with underlying source records (such as floor plans) in addition to challenging the methods and assumptions used by the valuer. Where necessary we also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p> <p>In addition, we assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.</p> <hr/> <p>Current position</p> <p>Our work is substantially complete.</p> <p>The Council's valuer has included a statement of 'material uncertainty' over the valuation as at 31 March 2020 and we have considered this as part of our testing approach. We have requested the Council ensure this is disclosed in the financial statements to inform any reader of the accounts. We are considering the impact to our Audit Report, which we expect will lead to an 'emphasis of matters' paragraph to draw attention to the relevant disclosure note in the financial statements. This would not be a modification to the audit opinion and this approach is consistent with all local authority audits.</p> <hr/>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of net defined benefit liability

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, the local government pension assets and liabilities are subject to triennial revaluation as at 31 March 2019, which set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.

How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we:

- review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office;
- agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;
- critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; and
- liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.

Current position

Our work is ongoing and we are unable to complete our work until we receive appropriate assurances from the auditor of the Nottinghamshire Pension Fund. These assurances will also inform us of any concerns relating to the valuation of pension fund assets as a result of any uncertainty caused by Covid19. We will need to consider the impact of this before issuing our opinion.

In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020. We have requested the Council obtain an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

We have, and will continue to have, ongoing dialogue with management over key aspects of the audit. These have included:

- The impact of Covid19 on the entity's business, including potential impact on risks of material misstatement.
- Discussions in connection with the application of auditing standards and fees for audit.

Covid19

We have discussed the impact of Covid19 on the Council's business and concluded there were no additional financial statement significant audit risks arising.

One area of concern arising from Covid19, is the impact on the Council's financial resilience. The full financial impact of Covid19 is not yet certain, however the initial outbreak impacted on the Council's ability to enact its original 2020/21 plan, including income generation and expenditure reductions.

We recognise the Council is working through the implications and considerations through business planning and financial planning updates. The impact on the Council's finances will impact the level of useable reserves and it is important the Council develops clear plans to ensure the Council's financial resilience is assured over the medium term.

Financial Statement Matters: Going Concern

The Council's going concern status is confirmed through the 2019-20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of financial statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of Covid-19, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular, reviewing management's explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of Covid-19.

We have provided a briefing note to management and have requested the Council perform a formal going concern assessment for 2019/20 prior to us forming our final audit opinion.

Financial Statement Matters: Financial Instruments

Whilst the Government has introduced a number of measures to ease financial hardship, the Council needed to consider the impact on expected credit losses and the impairment of financial assets.

Financial Statement Matters: Sources of estimation uncertainty, including pension fund assets and liabilities

The Council is required to provide disclosures regarding the key sources of estimation uncertainty that management has made in preparing the financial statements, specifically those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the ensuing financial year.

Audit fees

As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment

We expect this to be a permanent uplift to the audit fee and have provided management with an estimate, to be confirmed on completion of our work, of between £6,000 to £10,000.



2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

Audit fees

In addition to the fees relating to scope changes to the valuation of land and buildings and in relation to the pension fund assets and liabilities, we have discussed with management the additional audit testing and audit work required relating to:

- Valuation uncertainty on land and buildings and pension fund assets caused by Covid19;
- Additional testing and evaluation of the going concern assertion and financial instruments; and
- Potential changes to the financial statements as a result of the McCloud remedy.

We have provided management with an estimate of between £5,750 and £13,500 for these matters. The final amount will be agreed on completion of our work and be proportionate to the level of specific additional work required.

Management co-operation

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us. Remote working has meant the audit is not as efficient as we would like or expect, including an extended period of query resolution. This is consistent across all our clients and a reflection of the impact of Covid19.

Management have been under substantial pressure to deliver against many competing priorities since March 2020 and we want to extend our thanks to the finance team for their positive support and co-operation during the course of the audit.

Audit adjustments

In our Audit Completion Report, we will provide full disclosure of audit adjustments and any unadjusted misstatements for approval. From the work performed to date, the main items for the Governance, Audit and Standards Committee to note are:

- Property Plant & Equipment - Management identified that an accounting journal had not been posted to correct the capital adjustment account for revaluations made. This has no impact on the Council's useable reserves.
- Property, Plant & Equipment – We have requested the Council include a more enhanced disclosure relating to the Covid19 valuation uncertainty as issued by the Council's valuer.



3. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified the following significant risk to our VFM work:

Risk:	Financial resilience
Description	<p>The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2019/20. In order to set a balanced budget a funding gap of £0.615m was met from General Fund reserves and this was approved by the Council in February 2019.</p> <p>The latest forecast shows that the Council is now anticipating withdrawing £1.269m from balances in 2019/20 as opposed to the initial £0.615m as shown above. This is due to the effect of budget carry forwards from 2018/19 of £0.327m plus other changes approved by the Policy and Performance and Finance and Resources Committees. Moving forward there will be continuing pressure on the Council's General Fund reserve to plug each years' budget deficit. The Council's 2020/21 budget papers show that the General Fund reserve is expected to fall from £6.048m at 1 April 2019 to 3.876 at 31 March 2021.</p> <p>The Medium Term Financial Strategy (MTFS) which projects the Council's position up to 2023/24 based upon a series of assumptions shows that the General Fund reserve will continue to be utilised each year and fall below the minimum balance required of £1.5m in 2022/23 before becoming negative in 2023/24. This pressure upon the General Fund places the Council at increased risk should any adverse unknown or unexpected events occur.</p> <p>There will be significant changes in local government finances over the next few years, which will culminate in a major change in the way local government is financed from 2021/22 onwards. These include the anticipated Comprehensive Spending Review 2020, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50%). As the funding from 2021/22 onwards is unclear at this stage, the need for savings (or income generation) will continue to have a significant impact on the Council's financial resilience and reduce the burden on the need to utilise reserves to balance any deficits in the budget</p>
Planned response	<p>We will consider whether the Council has arrangements in place to secure its financial resilience, specifically:</p> <ul style="list-style-type: none"> • That the MTFP has been updated to reflect known changes in funding, spending plans and the impact on Useable Reserves. • That the MTFP includes sensitivity analysis given the degree of variability and uncertainty in funding. • How and whether the Council has delivered planned savings in 2019/20. • Whether sufficient progress has been made to identify savings for 2020 onwards.



3. VALUE FOR MONEY CONCLUSION

Risk:	Financial resilience
Observations to date	<p>During the 2019/20 financial year the achieved an underspend against the revised General Fund budget of £0.362m. This resulted in the Council's net deficit and the expected utilisation of reserves reducing from £1.3m to £0.625m, being £0.450m less General Fund reserves being utilised (after other reserve movements) than planned. The Housing Revenue Account delivered a £0.623m surplus, being a £0.899m underspend compared to revised budget.</p> <p>Although a positive outturn position was achieved against the revised budgets, Covid19 heightens the financial challenges to Broxtowe Borough Council over the medium-term:</p> <ul style="list-style-type: none">• Although £1.187m has been received in funding there will be a shortfall in the 2020/21 budget.• Savings and income generation included in the original 2020/21 budget are unlikely to be realised.• Between April and July 2020, the Council lost £2.4m of income, the longer-term impact is also to be determined.• Covid19 also increased the inherent risk to the Beeston square development, with the sale of land being deferred and a future risks aligned to economic recovery from Covid19 to retail and high streets.• Liberty Leisure has also been affected with the closure of Leisure centres and the resultant drop in income against the management fee that is payable. <p>The Council will need to update forecasts for 2020 and is preparing a revised Medium-Term Financial Plan and business strategy in October 2020. Good progress has been made in identifying options and the Council will need to carefully consider the impact on the general fund over the period 2020/21 to 2022/23 to ensure reserves remain adequate. The Council had anticipated that General Fund reserves may drop below the internally set target of £1.5m in 2022/23, but this is now likely to occur in 2021/22 and so managing the medium-term finances of the Council will be crucial.</p>



A. SUMMARY OF NATIONAL PUBLICATIONS

This section of our report contains national publications which may be of interest to Members, including recent publications in respect of Covid-19.

There have been many different briefings across different sectors, in respect of the emerging crisis and more are being published on an on-going basis. This summary does not intend to provide an exhaustive list of all recent publications, but to provide an overview of key areas.

Within Mazars, we liaise with the regulators for your sector on a regular basis and this will continue during the coming periods, so that we ensure we are up-to-date with emerging issues; we feed back any messages as part of on-going two-way communications.

	Publication/update	Key points
Financial Reporting Council and other regulators		
1.	Statement in respect of current situation	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
2.	Financial Scrutiny Practice Guide , 25 June 2020	Guidance on financial scrutiny in local government.
3.	CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, 30 April 2020	This is technical guidance for those preparing financial statements.
National Audit Office (NAO)		
4.	Guide for audit and risk committees on financial reporting and management during COVID-19, 24 June 2020	NAO Guidance for Audit and Risk committees during the pandemic.
5.	Investigation into remediating dangerous cladding on high-rise buildings, 19 June 2020	NAO report on addressing the issues with building cladding following the Grenfell fire.
6.	Auditor Guidance Note (AGN) 03 – Auditors’ Work on Value for Money Arrangements, June 2020	NAO consultation on the detailed new guidance for auditors in relation to VFM work from the 2020/21 audit.
7.	Readying the NHS and adult social care in England for COVID-19, 12 June 2020	NAO’s second publication considering the Government response to COVID-19.
8.	Managing Private Finance Initiative (PFI) assets and services as contracts end, 5 June 2020	NAO report on managing PFI contracts.
9.	Overview of the UK government’s response to the COVID-19 pandemic, 21 May 2020	NAO’s first publication considering the Government response to COVID-19.
10.	Code of Audit Practice	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit year and beyond.

A. SUMMARY OF NATIONAL PUBLICATIONS

	Publication/update	Key points
Public Sector Audit Appointments (PSAA)		
11.	PSAA Publishes Findings of Audit Survey, 7 May 2020	PSAA client survey. We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.
12.	Independent analysis of the outcomes of electors' objections, 15 April 2020	Analysis of objections.
13.	News release: Q&As, 9 April 2020	PSAA seeks to answer questions raised in the 2020/21 scale fee process.
14.	2020/21 audit fee scale, 31 March 2020	Scale fees set for 2020/21 at same level as 2019/20, but PSAA indicates likely upward pressure on audit fees for both years.
15.	Independent review of the sustainability of the local government audit market, 4 March 2020	PSAA publishes an independent review.
Ministry for Housing, Communities and Local Government (MHCLG)		
16.	Comprehensive new funding package for councils to help address coronavirus pressures and cover lost income during the pandemic, 2 July 2020	Latest funding package to assist local government to deal with the impact of the pandemic.
17.	Coronavirus (COVID-19): guidance for local government, 1 July 2020	Summary of all the guidance available for local government.
18.	Local authority COVID-19 financial impact monitoring information, 21 June 2020	Summary of information gathered to assess the financial impact of the pandemic on local government.
19.	Addressing cultural and governance failings in local authorities: lessons from recent interventions, 16 June 2020	Lessons to be learned from Government intervention in local authorities.
20.	Local government procurement: fraud and corruption risk review, 8 June 2020	Local government procurement fraud and corruption risk review provides advice on how councils can strengthen their processes and implement prevention measures.
21.	Emergency funding, 30 March 2020 and 28 April 2020	Two tranches of emergency funding to support local authorities.
22.	Councils given new powers to hold public meetings remotely, 3 April 2020	Temporary powers to hold remote meetings.
23.	Coronavirus (COVID-19): letter to councils about extending the statutory audit deadlines for 2019/20, 22 April 2020	Extension of accounts and audit timetable.
Local Government Association (LGA)		
24.	Key questions and issues for finance portfolio holders during the COVID-19 pandemic, 14 May 2020	A useful paper that highlights the key financial challenges from the pandemic, and the issues for medium term financial planning.
House of Commons: Public Accounts Committee:		
25.	Local authority investment in commercial property	Significant concerns over local authority approaches to commercial property investment

A. NATIONAL PUBLICATIONS

1. Statement on Covid-19, Financial Reporting Council and other Regulators, March 2020

A joint statement was issued by the Financial Reporting Council, the Financial Conduct Authority and Prudential Regulation Authority in response to the current situation.

The statement sets out that:

“Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly.

Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information”

This statement highlights:

- highlights likelihood of more modified opinions (where difficulties in obtaining evidence or other issues);
- going concern assumption considerations and uncertainties; and
- guidance for companies and auditors.

<https://www.fca.org.uk/news/statements/joint-statement-fca-frc-pra>

2. Financial Scrutiny Practice Guide, CIPFA (with the Centre for Public Scrutiny), 25 June 2020

CIPFA has released its guidance on Financial Scrutiny Practice, which is aimed at councils and councillors in England, and seeks to address how best to integrate an awareness of council finances with overview and scrutiny.

CIPFA reports that the impact of the pandemic means that council budgeting will need to be more focused on priorities and difficult choices for the foreseeable future. Therefore, the guide suggests ways to move budget and finance scrutiny beyond set-piece events that take place in December and quarterly financial performance reported to committees.

CIPFA also notes that effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust, sustainable, and takes into account the needs of residents.

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

3. CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, Chartered Institute of Public Finance and Accountancy, 30 April 2020

This is technical guidance for those preparing financial statements. It covers emerging or urgent accounting issues. The bulletin for the 2019/20 financial statements includes guidance on accounting for issues relating to the COVID-19 pandemic.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

A. NATIONAL PUBLICATIONS

4. Guide for audit and risk committees on financial reporting and management during COVID-19, 24 June 2020

The NAO has published a Guide for audit and risk committees on financial reporting and management during COVID-19. This guide aims to help audit and risk committee members support and challenge the organisations they work with in the following areas:

- Annual reports;
- Financial reporting;
- The control environment; and
- Regularity of expenditure.

In each section of the guide the NAO has set out some questions to help audit and risk committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period when more specific and detailed reporting on the outbreak will be required.

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

5. Investigation into remediating dangerous cladding on high-rise buildings, 19 June 2020

The NAO has published its report on the investigation into remediating dangerous cladding on high-rise buildings.

Following the Grenfell Tower disaster, the Ministry of Housing, Communities and Local Government (MHCLG) established the Building Safety Programme to ensure that residents of high-rise residential buildings are safe and feel safe from the risk of fire. In May 2018, MHCLG announced £400 million to fund the remediation of high-rise residential buildings with unsafe Aluminium Composite Material (ACM) in the social housing sector. In May 2019, a further £200 million was made available for the remediation of equivalent buildings in the private sector.

In May 2020, the Government announced a new £1 billion building safety fund to remove dangerous cladding from high-rise buildings. This brings the total funding for remediation to £1.6 billion.

The investigation examined how MHCLG is:

- assuring itself that it has correctly identified all the buildings which fall within scope of the Programme, and that they are being fully remediated;
- managing the pace of progress of remediation; and
- deciding which buildings qualify for remediation funding, and how it has assessed risks outside the scope of the programme.

Some of the findings from the investigation include:

- as at April 2020, 149 of the 456 buildings, 18 metres and over with unsafe ACM cladding have been fully remediated;
- the pace of remediation has been faster in the student accommodation and social housing sectors, but slower in the private residential sector;
- early signs are that the effect of COVID-19, and public health measures taken to limit its impact, have slowed down the pace of remediation; and
- more than a quarter of buildings yet to be remediated are concentrated in four local authorities.

<https://www.nao.org.uk/report/investigation-into-remediating-dangerous-cladding-from-high-rise-buildings/>

A. NATIONAL PUBLICATIONS

6. Auditor Guidance Note (AGN) 03 – Auditors' Work on Value for Money Arrangements, June 2020

The new Code of Audit Practice came into force on 1 April 2020, after being approved by Parliament. It was developed following a consultation process in 2019. The most significant changes to the new Code are in relation to auditors' work on value for money arrangements. NAO have decided to consult on the detailed statutory guidance that will support auditors to deliver work under the new Code.

NAO have now published its consultation seeking views on the draft 'Auditor Guidance Note (AGN) 03 – Auditors' Work on Value for Money Arrangements'. The consultation is open for a period of 12 weeks, with a closing date of 5pm on 2 September 2020.

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

7. Readyng the NHS and adult social care in England for COVID-19, 12 June 2020

The NAO published its report Readyng the NHS and adult social care in England for COVID-19 in June 2020.

This report is the second in a programme of work by the NAO to support Parliament's scrutiny of the UK government's response to COVID-19. It sets out the facts about government's progress in preparing the NHS and social care for the COVID-19 outbreak, with a focus on:

- actions set out in the 17 March letter to the NHS, and the 15 April action plan for adult social care. It also describes what is currently known about additional funding for health and adult social care;
- actions taken at a national level by those responsible for coordinating health, adult social care and local government in England; and
- the period from the start of the outbreak to at least the end of April, when the government announced that the UK was "past the peak". Depending on the data available at the time of writing, the NAO has provided information up to mid-May.

The report does not assess the value for money of the measures adopted by government or the effectiveness of its response. It uses a range of published and unpublished data, the latter requested from public bodies under the NAO's statutory audit powers.

<https://www.nao.org.uk/report/readying-the-nhs-and-adult-social-care-in-england-for-covid-19/>

8. Managing Private Finance Initiative (PFI) assets and services as contracts end, 5 June 2020

The NAO has published its report on Managing PFI assets and services as contracts end.

The report considers whether the government is making appropriate preparations to manage the expiry of PFI contracts. The report notes that there are currently 700 operational PFI contracts in the UK with a capital value of £57 billion. However, the study focuses on the 571 PFI contracts in England, excluding those for which responsibility lies with the devolved governments.

The report draws out the challenges and best practice that can most benefit those managing PFI contracts which are ending. Note that the report does not assess the potential impacts of the COVID-19 pandemic on the expiry of PFI contracts, as the fieldwork was conducted before the outbreak.

<https://www.nao.org.uk/report/managing-pfi-assets-and-services-as-contracts-end/>

A. NATIONAL PUBLICATIONS

9. Overview of the UK government's response to the COVID-19 pandemic, *National Audit Office*, 21 May 2020

Significant outbreaks of disease are among the greatest risks faced by any society, threatening lives and causing significant disruption to public services and the economy. The scale and nature of the current COVID-19 pandemic and government's response is unprecedented in recent history.

This report is the first of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its scrutiny of the UK government's response to COVID-19.

<https://www.nao.org.uk/report/summary-of-uk-governments-response-to-the-covid-19-pandemic/>

10. Code of Audit Practice, *National Audit Office*, March 2020

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies. Schedule 6 of the Act extends this requirement to include NHS Foundation Trusts.

Local auditors must comply with the Code of Audit Practice. The Code must be reviewed at least every five years, so the Code that applies will depend on the financial year being audited.

The final draft of the latest Code has now been approved by Parliament and will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. The NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). NAO plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

We will brief the Committee on changes as more guidance emerges over the year. Key messages from the new Code are summarised below:

Audit of the financial statements

Auditors must still comply with underlying auditing standards.

Value for money arrangements

- Removal of 'except for' and 'adverse' conclusions.
- Work based around 3 reporting criteria:
 - Financial sustainability
 - Governance
 - Improving the 3Es – economy, efficiency and effectiveness
- Auditors must report when they are not satisfied that arrangements are in place. Where weaknesses are identified, recommendations are expected at any time of the audit.

Auditor reporting

- Auditor's Annual Report introduced:
 - Replaces Annual Audit Letter
 - Includes enhanced commentary against each of the specified VFM reporting criteria
 - To be issued in line with the audit report on the financial statements

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

A. NATIONAL PUBLICATIONS

11. PSAA Publishes Findings of Audit Survey, *Public Sector Audit Appointments*, 7 May 2020

PSAA has published the findings of a survey of audited bodies' feedback on their audits of 2018/19 accounts.

In the past, surveys have been undertaken by the audit firms themselves and have sought the responses of client Chief Finance Officers (CFOs) to a relatively small number of high level questions.

This year, coinciding with the first audits under Appointing Person arrangements, PSAA has introduced a new approach which incorporates a number of important changes.

To assure independence and confidentiality, it has commissioned the LGA's Research & Information team to administer the survey centrally. The views of both CFOs and Audit Committee Chairs have been sought recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. A longer list of survey questions has also been developed to probe more deeply into respondents' experience of different aspects of the audit and the auditor's performance.

PSAA hopes that audited bodies will find the survey results interesting and helpful in terms of stimulating discussion about their audit, identifying areas in which it went well or might have been improved. PSAA is encouraged by the volume of data which its new survey has generated and the opportunity it provides to identify good practice and/or discuss specific areas for improvement with individual audit firms.

We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.

<https://www.psa.co.uk/2020/05/psaa-publishes-findings-of-audit-survey/>

12. Independent analysis of the outcomes of electors' objections, *Public Sector Audit Appointments*, 15 April 2020

A unique element of the local government accountability framework is the long-held rights of local electors to inspect accounts and related documents, and to object to auditors about issues of concern. In recent times electors have been able to access far more data and information than when the right to object was originally enacted, because of developments such as transparency reporting and the Freedom of Information Act.

Publicly available information about objections and their outcomes is limited. The work on them is often mainly confidential correspondence between the auditor, the objector and the local body with the outcome reported to the local body. Although the auditor's decision and detailed statement of reasons is sometimes reported in the public domain, this is not always the case. To help address that gap PSAA has commissioned an independent analysis of the outcomes of objections.

<https://www.psa.co.uk/2020/04/news-item-independent-analysis-of-the-outcomes-of-electors-objections/>

13. News release: Q&As, *Public Sector Audit Appointments*, 9 April 2020

PSAA consulted on the 2020/21 scale fees earlier this year and published the 2020/21 scale fees on 31 March 2020. Not surprisingly in these turbulent times for audit the consultation responses contained many questions. Today PSAA have published a 'Q&A', setting out our answers to them.

<https://www.psa.co.uk/2020/04/news-release-qas/>

A. NATIONAL PUBLICATIONS

14. 2020/21 audit fee scale, *Public Sector Audit Appointments*, 31 March 2020

The consultation set out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:

- issues which have given rise to additional audit work in relation to the 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews being undertaken and referred to in this progress report (see item 7 above); and
- the introduction of the new NAO Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.

In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.

The expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits, with a specific aim also to look ahead to identify any implications for 2020/21. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process.

Link to the PSAA consultation is set out below:

<https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

PSAA published its scale fees for 2020/21 on 31 March 2021, and concluded that:

"In current circumstances we do not have sufficient reliable information that would enable us to adjust the scale of fees for 2020/21, and so have maintained the scale fee at the level set for 2019/20 before audit work had started. In practice we recognise that in the event, with so much turbulence and change in the environment, additional fees variations are likely to arise for many bodies."

<https://www.psa.co.uk/audit-fees/2020-21-audit-fee-scale/>

15. Independent review of the sustainability of the local government audit market, *Public Sector Audit Appointments*, 4 March 2020

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

The TR 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 31st 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.

<https://www.psa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/>

A. NATIONAL PUBLICATIONS

16. Comprehensive new funding package for councils to help address coronavirus pressures and cover lost income during the pandemic, 2 July 2020

On 2 July 2020, Government announced a major new support package to help councils respond to coronavirus as part of comprehensive plan to ensure councils' financial sustainability for the future.

Key features of the new package include:

- Government announces new comprehensive package of support to address spending pressures and in recognition of lost income;
- Further £500 million brings funding given to support local councils with pressures to £4.3 billion, part of a package of over £27 billion to help councils, businesses and communities; and
- New scheme will also reimburse councils for lost income and allow council and business rates tax deficits to be repaid over 3 years instead of one.

The announcement included statements that:

Recognising that councils are best placed to decide how to meet pressures in their local area, this funding has not been ringfenced.

In addition to this funding, a major new scheme introduced by the government today will help to reimburse lost income during the pandemic and boost cash flow. Where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover them for 75p in every pound lost.

Additionally, to enable them to get on the front foot and build much-needed breathing space into their budgets, the government is also bringing in changes so that they can spread their tax deficits over 3 years rather than the usual one.

Overall, in the last 6 months, government has worked closely with local authorities to understand their needs and provided more than £27 billion to help councils, businesses and communities through COVID-19.

At the time of writing, further detail is awaited in relation to this announcement.

<https://www.gov.uk/government/news/comprehensive-new-funding-package-for-councils-to-help-address-coronavirus-pressure-and-cover-lost-income-during-the-pandemic>

17. Coronavirus (COVID-19): guidance for local government, 1 July 2020

There is a wide range of Government Guidance that relates to local councils during the coronavirus (COVID-19) outbreak. MHCLG provides a comprehensive list of all guidance and keeps this updated at the attached link.

<https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government>

A. NATIONAL PUBLICATIONS

18. Local authority COVID-19 financial impact monitoring information, 21 June 2020

MHCLG is collecting data on the impact COVID-19 is having on local authority finances.

The purpose of the data collection is to help provide the government with information on the financial pressures experienced by local authorities as a result of the pandemic. The data collection, which is aimed at Finance Directors in 339 local authorities, is based on best estimates. Fire and rescue authorities and combined authorities are not included in the survey.

Information from local authorities were collected in mid-April and mid-May, and MHCLG plans to run the data collection on a regular basis, as the government continues its response to the pandemic. The data collected so far shows that the combined spending and income pressure at the end of May was £3.24 billion.

The detailed monitoring information (presented in excel format) is available here.

<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

19. Addressing cultural and governance failings in local authorities: lessons from recent interventions, 16 June 2020

MHCLG reports that based on its experience of supporting, and sometimes intervening in local authorities (LAs) experiencing difficulties, culture and governance at LAs are key to their success or failure. To support LAs in these areas, MHCLG has published a short guide which considers the lessons about LA culture and governance that can be learned from recent statutory and non-statutory interventions.

The key areas covered by the guide include:

- recognising indicators of poor culture and weak governance;
- addressing ineffective leadership (corporate and political);
- addressing poor behaviour across an authority; and
- strengthening scrutiny, transparency and whistle-blowing support.

<https://www.gov.uk/government/publications/addressing-cultural-and-governance-failings-in-local-authorities-lessons-from-recent-interventions/addressing-cultural-and-governance-failings-in-local-authorities-lessons-from-recent-interventions>

20. Local government procurement: fraud and corruption risk review, 8 June 2020

The government has published the findings from its review of fraud and corruption risks in local government procurement.

The review report focuses on the risks of fraud and corruption when councils procure and commission goods, works and services. The report notes that the effective management of risk in procurement is part of ensuring a well-led and risk-aware council, that manages its resources efficiently to secure value for money outcomes.

The report includes:

- case studies highlighting where fraud and corruption incidents have occurred;
- best practice examples for mitigating fraud and corruption risks; and
- suggested activities to improve the response to fraud and corruption risks in local government.

<https://www.gov.uk/government/publications/local-government-procurement-fraud-and-corruption-risk-review>

A. NATIONAL PUBLICATIONS

21. Emergency funding, *Ministry for Housing, Communities and Local Government*, 30 March 2020 and 28 April 2020

On 19 March 2020, the [government announced](#) £1.6 billion of additional funding for local government to help them respond to coronavirus (COVID-19) pressures across all the services they deliver.

A further £1.6 billion in additional funding was [announced](#) on 18 April 2020. This extra £1.6 billion takes the total given to councils to help their communities through this crisis to over £3.2 billion.

This document sets out the allocations for local authorities.

<https://www.gov.uk/government/publications/covid-19-emergency-funding-for-local-government>

22. Councils given new powers to hold public meetings remotely, *Ministry for Housing, Communities and Local Government*, 3 April 2020

The government has temporarily removed the legal requirement for local authorities to hold public meetings in person during the coronavirus pandemic. This will enable authorities to make effective and transparent decisions on the delivery of services for residents and ensure that local democracy continues to thrive.

<https://www.gov.uk/government/news/councils-given-new-powers-to-hold-public-meetings-remotely>

23. Coronavirus (COVID-19): letter to councils about extending the statutory audit deadlines for 2019 to 2020, *Ministry for Housing, Communities and Local Government*, 22 April 2020

Letter from the Ministry of Housing, Communities and Local Government informing local authority chief executives that:

- the publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies
- to give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June (for Category 1 authorities) and July (for Category 2 authorities) has been removed. Instead local authorities must commence the public inspection period on or before the first working day of September 2020.

<https://www.gov.uk/government/publications/coronavirus-covid-19-letter-to-councils-about-extending-the-statutory-audit-deadlines-for-2019-to-2020>

24. Key questions and issues for finance portfolio holders during the COVID-19 pandemic, *Local Government Association*, 14 May 2020

The ongoing COVID-19 pandemic has already had a significant impact on local council finances, the effects of which will continue through the current period of lockdown and beyond. This paper seeks to outline and discuss key strategic issues that elected members, particularly those in finance and wider leadership positions, should consider.

<https://www.local.gov.uk/key-questions-and-issues-finance-portfolio-holders-during-covid-19-pandemic>

A. NATIONAL PUBLICATIONS

24. House of Commons: Public Accounts Committee: Local authority investment in commercial property

The Public Accounts Committee has expressed significant concerns over local authority investments in commercial property and has made a series of recommendations, including:

- Further strengthening of guidance and the prudential framework
- Further strengthening of local governance arrangements.

<https://publications.parliament.uk/pa/cm5801/cmselect/cmpubacc/312/31202.htm>

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