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Date: 16 July 2021

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 22 JULY 2021

I am now able to enclose, for consideration at next Thursday, 22 July 2021 meeting of the Governance and Audit Committee, the following report that was unavailable when the agenda was printed.

Agenda Item No

16 **External Audit Progress Report (Pages 1 - 16)**

Yours sincerely

Benjamin Watts
General Counsel

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Audit Progress Report and Sector Update

Year ending 31 March 2021

15 July 2021
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Governance and 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.

Members of the Governance and 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 Paul or Parris.

Progress at July 2021

2020/21 Financial Statements Audit

We carried out our planning work for the 2020/21 audit in April. The results of our planning work is set out on page 7 and 8.

In April we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31 August. The date by which authorities are required to publish audited financial statements is 30 September. In 2020 this date was pushed back to 30 November.

We have begun our work the draft financial statements of the Council and Pension fund in July.

2019/20 Audit – Whole of Government Accounts

We will complete the certification of the audit for 2019/20 following completion of the audit of the Whole of Government Accounts return. This work is nearing completion and expect to issue the certificate by the end of the month.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. 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, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Progress at July 2021 (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 certificate work for 2018/19 and the 2019/20 claim is going.

Meetings

We plan to next meet with the Chief Finance Officer on 29 July as part of our regular liaison meetings.

We also continue to meet and be in regular correspondence with Finance Officers at both the Council and the Pension Fund. There continues to be good engagement between us and your finance teams during the final accounts audit enabling us to complete work planned. We continue to liaise on key audit matters such as estimates and in particular, the key estimates attributed to the valuation of property, plant and equipment and pensions.

Financial Reporting Council review of the 2019/20 audit

As part of their annual programme of work, the Financial Reporting Council (FRC) selected the 2019-20 audit of Kent County Council and the Pension Fund for review. As at the date of writing this report the review is nearing completion and we will update the Governance and Audit Committee of the findings once the review is finalised.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. 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. 2020/21 is the third 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 and 2019/20 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 s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Governance and 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.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	April 2021	Complete
Audit Findings Report (ISA 260) The Audit Findings Report will be reported to the October Governance and Audit Committee.	October 2021	Not yet due
Auditors Report This is the opinion on your financial statements and annual governance statement.	October 2021	Not yet due
Auditor's Annual Report The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The AAR will be taken to the October Joint Governance and Audit Committee.	December 2021	Not yet due

Results of planning work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have also reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Authority's controls implemented in areas where we consider that there is a significant risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach.

Results of planning work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Planning inquiries	<p>We request formal responses from management to a series of questions. These responses must then be shared and agreed with the Governance and Audit Committee.</p>	<p>KCC: Management has drafted responses and these were shared at the Governance and Audit Committee in April. Our review has not identified any issues in the responses received.</p> <p>PF: Management has drafted responses and these will be shared at the next Governance and Audit Committee. Our review has not identified any issues in the responses received.</p>
Understanding the internal control environment of IT systems and IT General controls	<p>Under the ISA's we are required to gain an understanding of the IT general control environment, and to ensure key controls and designed and implemented effectively.</p> <p>Initial work was completed during April and this will be completed during our final accounts visit in July-September.</p>	<p>No issues identified from work performed to date that we need to bring to the attention of those charged with governance.</p>

Sector Update

Authorities 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 Governance and 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

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	3,181.254
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	378.846
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	298.584
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	299.433
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	340.858
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	2,363.926
Total	329.937	2,111.187	1,791.153	1,503.848	1,126.777	6,862.902



The figures are available in full here:
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	1,215.708
Council tax	399.037	0.000	217.633	191.219	232.727	1,040.616
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	2,137.728
Commercial income	82.448	24.159	120.629	204.211	52.154	483.600
Other	33.494	39.947	27.163	53.664	45.166	199.435
Total	1,307.903	259.029	1,113.524	1,053.190	1,343.441	5,077.087

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

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- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

Public Accounts Committee – House of Commons

System of local government audit covering £100 billion of public spending a year close to “breaking point” says PAC

In a report published today the Commons Public Accounts Committee says Government’s oversight of local government audit has become “increasingly complacent” with less than half of local authority audits meeting the deadline for completion in 2019-20, and half of audits examined by the Financial Reporting Council (FRC) needing “more than limited” improvement. The local audit market is “now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits.”

The Committee says “if local authorities are to effectively recover from the pandemic, it is critical that citizens have the necessary assurances that their finances are in order and being managed in the correct manner.”

“Delays and quality issues undermine the value and purpose of audit, reducing the assurance to taxpayers and elected representatives.”

The Committee questions whether the “pressing” need for new system leadership in local public audit, identified in last year’s Redmond Review, is met by Government’s proposal for a future Auditing, Reporting and Governance Authority (ARGA) which will not be set up until 2023 at the earliest. It’s unclear whether it will then be able to fully address the current failings in the market for auditing local authorities, and in the meantime MHCLG has not given enough “credible detail on addressing the urgent problems that cannot wait for ARGA”.

Dame Meg Hillier MP, Chair of the Public Accounts Committee, said:

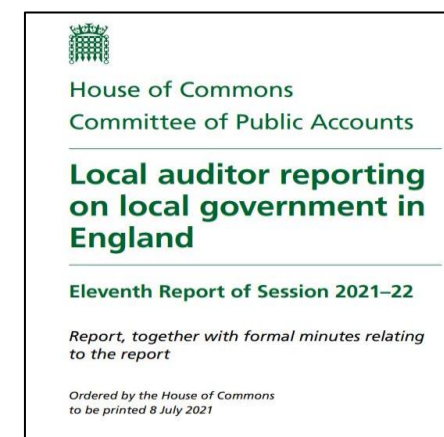
“Our citizens expect public authorities to account for the taxpayers’ money that they spend. As public spending and demand on local services have exploded with the pandemic, the accelerating decline in the timeliness and quality of audit of local government spending undermines that accountability, and undermines effective spending decisions.

“Even before Covid the local government audit market was strained. If the market cannot deliver that accountability and clarity about the costs and risks in local government the Government should be more concerned than its slowness to act suggests. The Redmond Review of local government audit is a thorough and sensible piece of work but some of its measures won’t be implemented until 2023 – more than four years since it was commissioned. And public audit is added as an after thought to a body which oversees the very different field of company auditing.

“As we embark on the long road to recovery from Covid19 and transition to a net zero carbon economy, clear, accessible and transparent audit reports will be more important not less. The delays in delivering audits are the tip of an iceberg of issues facing public audit which need real commitment to resolve.”

The full report is available here:

<https://committees.parliament.uk/publications/6672/documents/71757/default/>





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