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Dear Sir/Madam

**ACCOUNTS AND GOVERNANCE COMMITTEE - TUESDAY, 10TH MAY, 2022**

Please find enclosed a report to be included for consideration at the meeting of Accounts and Governance Committee on Tuesday, 10th May, 2022 .

4 **External Audit Progress Report and Sector Update (Pages 3 - 16)**

To consider report DoR36/22 of the Interim Director of Resources, which provides an update from the External Auditor on the Statement of Accounts Audit for 2020/21 and a Sector Update.

RECOMMENDED that the Accounts and Governance Committee notes the report.

*[Please note: Appendix 1 to this report will be sent 'to follow'.]*

Yours sincerely



Ian Frost  
Interim Chief Executive

Encs

**Distribution**

1. Reports to all Members of the Accounts and Governance Committee for attendance.
2. Reports to Departmental Heads for information.
3. Reports to all remaining Councillors for information.

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# Eden District Council Audit Progress Report and Sector Update

Year ending 31 March 2022

May 2022



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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 Authority 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

## Your key Grant Thornton team members are:

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Key Audit Partner

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### Georgina Philp

Engagement Manager

### Natasha Ayre

Audit In-charge

This paper provides the Accounts and Governance 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 Accounts and Governance 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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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

# Progress at May 2022

## Financial Statements Audit

Our initial planning for the 2020/21 audit was undertaken in November 2021. We issued a detailed Audit Plan, setting out our proposed approach to the audit of the Council's 2020/21 financial statements in December 2021.

We received your statement of accounts on 22 December 2021, which is over four and half months later than the statutory deadline. We began our work on your draft financial statements in January 2022.

This work included all areas of the financial statements, including identified significant risks of: management override of controls; fraud in expenditure recognition; valuation of pension fund net liability; valuation of land, buildings and investment property and capacity of the finance team.

Our audit work on these significant risk areas and other areas of the financial statements is not yet complete. From our audit work undertaken to date, we have identified that adjustments to the financial statements will be required. This includes correcting for prior period misstatements and the current year figures for the re-run of IAS 19 pension report due to subsequent valuations in the Cumbria LGPS fund value. Full details of these adjustments will be included in our Audit Findings Report.

We agreed with management in March 2022 to pause our audit to provide capacity to the finance team to provide outstanding information and provide a revised set of financial statements by the end of April 2022. We have not yet received these as at the date of writing [2 May 2022].

We aim to recommence the audit in July 2022, with the view to report our work in the Audit Findings Report and give an opinion by the end of July 2022. Please see page six for further details.

It is critical that management and the finance team have the capacity to respond to these outstanding areas promptly otherwise the timetable as outline on page six will not be possible, and will cause further delays to the commencement of the 2021/22 audit.

## 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 was 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 for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

# Progress at March 2022 (cont.)

## Other areas

### Meetings

We continue to meet with your Finance Team and management regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Interim Director of Resources and Chief Executive in March 2022 to discuss our value for money audit.

### Events

Your officers attended our Accounts Workshop in February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insights into elements of the audit approach.

Further details of the publications that may be of interest to the Authority 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. 2021/22 is the fourth 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 the period 2018/19 to 2021/22 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 Accounts and Governance 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

| <b>2020/21 Deliverables</b>   | <b>Planned Date*</b> | <b>Revised Date</b> | <b>Status</b>   |
|---|----------------------|---------------------|---|
| <p><b>Audit Plan</b></p> <p>We issued a detailed audit plan to the Accounts and Governance Committee in December 2021.</p>      | December 2021        | N/A                 | Complete.   |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Accounts and Governance Committee.</p> | April 2022           | July 2022           | Dependent on responsiveness of management to our audit queries. |
| <p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>                                    | April 2022           | July 2022           | Dependent on responsiveness of management to our audit queries. |
| <p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.</p>     | April 2022           | July 2022           | Dependent on responsiveness of management to our audit queries. |

\*As previously reported to the Accounts and Governance Committee in February 2022.

| <b>2021/22 Deliverables</b>   | <b>Planned Date</b> | <b>Revised Date</b> | <b>Status</b> |
|---|---------------------|---------------------|---------------|
| <p><b>Audit Plan</b></p> <p>Sets out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p> | October 2021        | N/A                 | Not due yet.  |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Accounts and Governance Committee.</p>   | December 2021       | N/A                 | Not due yet.  |
| <p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>  | December 2021       | N/A                 | Not due yet.  |
| <p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.</p>   | December 2021       | N/A                 | Not due yet.  |



# 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 audit committee members, as well as any accounting and regulatory updates.

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

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

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

Public Sector

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

Local  
government

# Levelling up White Paper – Department for Levelling Up, Communities and Housing (“DLUCH”)

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)  
([www.gov.uk](https://www.gov.uk))



# Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

# Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- 1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- 2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

The consultation closed on 3 March 2022.

## Summary of the Grant Thornton response

### Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

### Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

# Emergency consultation on 2021/22 reporting requirements – CIPFA (cont.)

## Update on decision

CIPFA LASAAC published its preliminary decision on 17 March 2022:

- not to progress any of the proposals around pausing formal valuation of assets.
- to pursue the proposal on deferring IFRS 16, but note that this is the Board's preliminary decision, subject to the other steps in the governance process. These include consideration and review by the FRAB, and further formal approval processes at CIPFA via PFMB and at LASAAC.

Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board (FRAB) before implementation. FRAB agreed with the deferral of IFRS 16 to 2024/25 but advised that the Code must also allow for early adoption from 1 April 2022 or 1 April 202. CIPFA are considering how the provisions for early adoption in 2022/23 or 2023/24 may be reflected in the relevant editions of the Code.

# Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)



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