Grant Thornton

East Staffordshire Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

23 March 2022

Contents

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.

Introduction

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This paper provides the Scrutiny (Audit and Value for Money Council Services) 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 Scrutiny (Audit and Value for Money Council Services) 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 March 2022

Financial Statements Audit

We began our initial planning for the 2021/22 audit at the end of February 2022. Our planning work has continued into March and is nearing completion. We expect to begin our work on your draft financial statements in mid July.

Our planning work includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In June, we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 October 2022.

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. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

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 the 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, 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. We anticipate issuing our Auditor's Annual Report in December 2022.

Progress at March 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in October 2021. DWP extended the deadline for reporting the findings of this work to 28 February 2022. We completed our work and reported to DWP on 28 January 2022.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive March to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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. 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 Scrutiny (Audit and Value for Money Council Services) 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

2021/22 Deliverables	Planned Date	Status
Progress Report We will update you on the progress of our planning work within our Progress Report, including an outline of the indicative significant risks we have identified.	March 2022	Completed
Audit Plan We are required to issue a detailed audit plan to the newly formed Audit Committee setting 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.	June 2022	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the September Audit Committee.	September 2022	Not yet due
Auditors Report This includes the opinion on your financial statements.	October 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	December 2022	Not yet due

2020/21 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	28 February 2022	Completed

Financial Statements Audit 2021/22

Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we expect our work to focus on.

Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- **Revenue may be misstated due to improper recognition.** This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Trust to determine whether there is a risk of fraud from improper recognition.
- **The risk of management over-ride of controls is present in all entities.** The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance. We will therefore treat the risk of management override of controls, in particular journals, management estimates and transactions outside the course of business, as a significant risk.

Other significant risks

- **Valuation of land and buildings:** The Council is required to revalue its land and buildings on a sufficiently frequent basis to ensure that the carrying value in the financial statements it not materially difference from the current value at the financial statements date. To achieve this, the Council requests valuations from its valuation experts. This valuation represents a significant estimate by management in the financial statements due to the value involved and the sensitivity of this estimates to changes in key assumptions. It is expected that the valuation of land and buildings will continue to be identified as a significant risk.
- **Valuation of pension fund net liabilities:** The Council's pension fund net liability represents a significant estimate in the financial statements due to the size of the numbers involved (£58.3m in the Council's balance sheet at 31st March 2021) and the sensitivity of the estimate to changes in key assumptions. It is expected that the valuation of the pension fund net liability will continue to be identified as a significant risk.

Other expected areas of focus

- In line with the Public Audit Forum Practice Note 10 Audit of financial statements and regularity of public sector bodies, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. We do not anticipate there being a significant risk in this regard, but will consider as part of our planning processes and again on receipt of the draft financial statements whether there is an increased level of risk associated with these transactions which would require additional audit focus.
- ISA (UK) 540 (Auditing Accounting Estimates and Related Disclosures) has raised the bar in terms of what both we and management are required to do in relation to accounting estimates. Should there be any material, large or complex estimates required for the 2021/22 accounting period, we will consider whether this constitutes a significant risk, and apply additional audit focus where required.

Informing the audit risk assessment

To inform our planning we include later in this report, on pages 9 to 36, responses from management to a series of questions posed across the themes of fraud, laws and regulations, going concern, related parties and accounting estimates.

Financial Statements Audit 2021/22 (cont.)

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

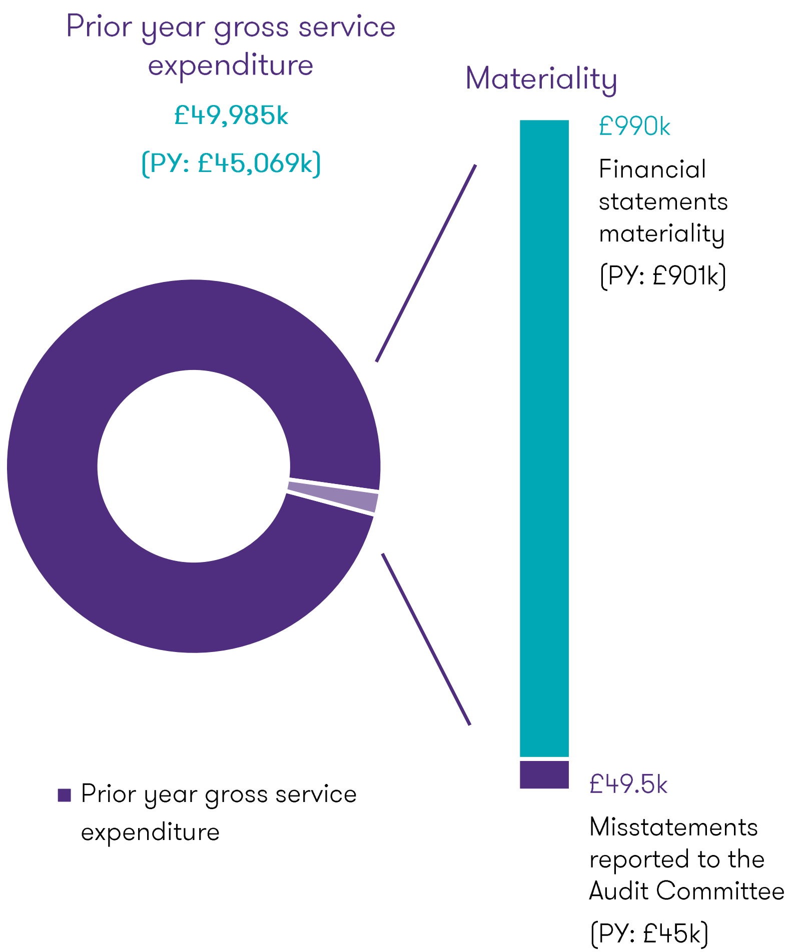
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £990k (PY £901k) for the Council, which equates to around 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision, which we have determined to be £7.5k for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £49.5k (PY £45k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Informing the Audit Risk Assessment

Informing the Audit Risk Assessment

The purpose of this section is to contribute towards the effective two-way communication between the Council's external auditors and the Scrutiny (Audit and Value for Money Council Services) Committee, as 'those charged with governance'. This section covers some important areas of the auditor risk assessment where we are required to make inquiries of the Scrutiny (Audit and Value for Money Council Services) Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Scrutiny (Audit and Value for Money Council Services) Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Scrutiny (Audit and Value for Money Council Services) Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Scrutiny (Audit and Value for Money Council Services) Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Scrutiny (Audit and Value for Money Council Services) Committee and supports members in fulfilling their responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

This section includes a series of questions on each of these areas and the response we have received from the Council's management. The Scrutiny (Audit and Value for Money Council Services) Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Covid-19 has continued to have a significant impact on the Council's finances during 2021/22, including a reduction in income generated from the delivery of services, and increased funding from central government both to support the Council's financial pressures but also to support business and residents. The impact on our car parking income is also likely to impact on the underlying valuations.
2. Have you considered the appropriateness of the accounting policies adopted by East Staffordshire Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Our accounting policies are largely consistent with those recommended within the Code of Practice issued by CIPFA and any deviation is of an immaterial nature. There is currently an emergency consultation which may change the approach to Property, Plant and Equipment measurement. If these proposals are adopted this will require a change in accounting policy.
3. Is there any use of financial instruments, including derivatives? If so, please explain	The council continues to utilise the standard financial instruments that you would generally expect to see in a local authorities accounts.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	None, other than the Covid-19 funding from Government and associated Grants to Business/residents mentioned above.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None that I am aware of. We have received a RICS market based valuation of the Market Hall in Burton linked to the proposals in the Towns Fund. This is significantly below the currently carrying value within the accounts. The valuation in the accounts has been prepared in compliance with the Code of Practice, which requires the valuation to be based on existing use and is prepared using the Depreciated Replacement Cost method. As at 31st March 2021 the Market Hall will continue to be operational and as such the existing approach to valuation will continue to be appropriate.

General Enquiries of Management

Question	Management response
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council guarantees the leisure pension liabilities associated within those staff that transferred to SLM (also known as Everyone Active) in 2018.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	There are a number of contingencies disclosed in the 2019/20 accounts and these largely remain valid. The Council has an outstanding disputed claim for Supported Housing.
8. Other than in house solicitors, can you provide details of those solicitors utilised by East Staffordshire Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	External solicitors have been utilised during the year up to the value of £63k in total (including support from Staffordshire County Council). Other that the national truck cartels case, there are no other matters of significance reported by the Solicitor to the Council and legal team at the time of writing. However the Council is waiting on the timescales for a tribunal hearing in relation the claims for supported housing.
9. Have any of East Staffordshire Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No

General Enquiries of Management

Question	Management response
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council will routinely utilise the services of various professionals (i.e. legal, finance, planning, valuers and quantity surveyors) for specialist ad-hoc advice as and when required. It is more cost effective to do this than carry these specialist skills throughout the year. External support has been utilised to develop the Project D – High Street Business Case, for which the Council is the lead authority.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	This has been considered and none identified.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Scrutiny (Audit and Value for Money Council Services) Committee and management. Management, with the oversight of the Scrutiny (Audit and Value for Money Council Services) Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Scrutiny (Audit and Value for Money Council Services) Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As East Staffordshire Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Scrutiny (Audit and Value for Money Council Services) Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Scrutiny (Audit and Value for Money Council Services) Committee oversees the above processes. We are also required to make inquiries of both management and the Scrutiny (Audit and Value for Money Council Services) Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from East Staffordshire Borough Council's management.

Fraud risk assessment

Question	Management response
1. Has East Staffordshire Borough Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas, on Council Tax and Housing Benefit fraud. The risk of material misstatement of the accounts due to undetected fraud is low.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The areas within the accounts most at risk to fraud are Council Tax and housing benefit.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within East Staffordshire Borough Council as a whole, or within specific departments since 1 April 2021? If so, please provide details	There are some areas that are inherently at risk from fraud such as: • Council Tax • Benefit fraud • Single person discount • Covid-19 Support Payments (Business grants or track and trace support payments Whilst benefits fraud investigation has largely been transferred to the DWP, the council has processes in place in order to prevent and detect fraud, including externally commissioned reviews of single person discounts and empty homes reviews as well as participating in the national fraud initiative (NFI).

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Corporate and Strategic risks are reported quarterly to Cabinet and Scrutiny (Audit and Value for Money Council Services) Committee. Any specific incidents would be reported at the appropriate time to the relevant Deputy Leader, Cabinet, Audit Committee Chair and Audit Committee.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within East Staffordshire Borough Council where fraud is more likely to occur?	See response to question 3
6. What processes do East Staffordshire Borough Council have in place to identify and respond to risks of fraud?	Part 4B of the Constitution (Anti-Fraud and Corruption Strategy) sets out the arrangements in place within the Council in relation to Fraud. Work is carried out by Internal Audit on overall fraud risk areas and they provide Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.

Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment for East Staffordshire Borough Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	The overall control environment for the Council is generally very good. This is reflected within both the internal and external audit reports and also the Annual Governance Statement. Evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Council. The Internal Audit plan incorporates consideration of potential fraud. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register.
8. Are there any areas where there is potential for misreporting? If so, please provide details	See response to Question 3
9. How does East Staffordshire Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The Anti-fraud and Corruption Strategy forms part of the Council's Constitution. It sets out the Culture of the organisation in respect of fraud and the expectations of management and staff in terms of reporting, prevention, detection and investigation of fraud. No significant issues have been reported during 2021/22 to date.

Fraud risk assessment

Question	Management response
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	A number of posts such as Chief Officers as key decision makers, treasury staff, budget/contract managers and payments staff may be considered high risk. However the controls the Council as put in place mitigate the risk level to a much lower level.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No
12. What arrangements are in place to report fraud issues and risks to the Scrutiny (Audit and Value for Money Council Services) Committee? How does the Scrutiny (Audit and Value for Money Council Services) Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Work is carried out by Internal Audit on overall fraud risk areas and they provide the Scrutiny (Audit and Value for Money Council Services) Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. Any issues of significance would also be reported as part of the Annual Governance Statement.

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The external auditors have recently directly received such a complaint in relation to the Towns Fund.
14. Have any reports been made under the Bribery Act? If so, please provide details	No

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Scrutiny (Audit and Value for Money Council Services) Committee, is responsible for ensuring that East Staffordshire Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Scrutiny (Audit and Value for Money Council Services) Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does East Staffordshire Borough Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	The Monitoring Officer reports to full Council, where any action taken, or likely to be taken by the Council, its executive members, committee or officers is likely to be contrary to law or result in maladministration. The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover: • complying with the law of the land (including any relevant Codes of Conduct); • complying with any General Guidance issued, from time to time, by the Monitoring Officer; • making lawful and proportionate decisions; and • generally, not taking action that would bring the Council, their offices or professions into disrepute. This officer has access to all Council committee reports. The Monitoring Officer raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the monitoring officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.
2. How is the Scrutiny (Audit and Value for Money Council Services) Committee provided with assurance that all relevant laws and regulations have been complied with?	As set out in the response to Question 1 above. In addition, The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends the majority of Council meetings and advises members on any areas of concern.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	No
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	There is an ongoing national claim in relation to truck cartels which is being co-ordinated by the LGA.

Impact of laws and regulations

Question	Management response
5. What arrangements does East Staffordshire Borough Council have in place to identify, evaluate and account for litigation or claims?	Appropriate legal advice is sought as necessary. In practice the Monitoring Officer is responsible for ensuring that the Council is compliant with laws and regulations and will raise awareness of legal matters / requirements where needed.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

East Staffordshire Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by East Staffordshire Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in East Staffordshire Borough Council's 2020/21 financial statements? If so please summarise: • the nature of the relationship between these related parties and East Staffordshire Borough Council • Whether East Staffordshire Borough Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No
2. What controls does East Staffordshire Borough Council have in place to identify, account for and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers and members requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests/transactions. • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation • Review of year end debtor and creditor positions in relation to the related parties identified. • Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	All non- treasury financial transactions/payments must be authorised by a Chief Officer before payments can be made, in addition any transactions above £50k must be counter-signed by a senior member of the finance team.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	As set out in 3 above, including ensuring compliance with the appropriate approvals (as per the Constitution).

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government presumes going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by East Staffordshire Borough Council will no longer continue?	The Council has a robust medium term financial strategy, which demonstrates that the Council is financially sustainable in the medium term. The level of reserves indicates a strong level of financial sustainability. The Council monitors national developments in relation to devolution and the levelling up agenda in conjunction with partners across Staffordshire.
2. Are management aware of any factors which may mean for East Staffordshire Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by East Staffordshire Borough Council, does East Staffordshire Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for East Staffordshire Borough Council to cease to exist?	These are expected to be provided by East Staffordshire Borough Council for the foreseeable future and there are no plans for the Council to cease to exist.
4. Are management satisfied that the financial reporting framework permits East Staffordshire Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Scrutiny (Audit and Value for Money Council Services) Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Scrutiny (Audit and Value for Money Council Services) Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Pension liabilities and associated transactions; PPE Valuations; Impairment Allowances for doubtful debts; Business Rate Appeal Provisions; Fair Value Measurements
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	These risks are identified and addressed as part of the preparation for closing the accounts and finalised during the closure of accounts, including management oversight.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	This will vary for each class of transaction, where external professionals are utilised management will discuss and challenge the approach being suggested, as and when appropriate.
4. How do management review the outcomes of previous accounting estimates?	This will vary for each class of transaction.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	This will vary for each class of transaction, but are nevertheless subject to annual review.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management apply their knowledge of the organisation, the associated transactions and internal expertise to determine whether specialist external skills are required to support the accounting estimates. This predominately relates to Pensions and Assets, although other specialist expertise may be necessary from time to time.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	For the few external advisors that the Council commissions, their work is clearly specified and reviewed and challenged (where appropriate) by internal professionals and management.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See response for question 7
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Oversight is provided by the Scrutiny (Audit and Value for Money Council Services) Committee. Members receive training on the Statement of Accounts in advance of their approval and have any opportunity to ask questions, challenge any assumptions etc.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	They are compliant with the relevant Code of Practice and underlying regulations, based on relevant current data and reasonable assumptions.
12. How is the Scrutiny (Audit and Value for Money Council Services) Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Members receive training on the Statement of Accounts in advance of their approval and have any opportunity to ask questions, challenge any assumptions etc.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Valuations are made by an externally appointed valuer. The valuations are made in line with the Code requirements using RICS guidance on the basis of 5 year valuations with interim reviews	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.. Principal Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim revaluation. The valuer undertakes a desk top review of assets not due for full revaluation.	Use professional valuers – an externally appointed valuer (RICs qualified)	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Investment property valuations	Valuations are made by an externally appointed valuer each year.	Valuations are performed annually inline with the Code requirements	Use professional valuers – an externally appointed valuer (RICs qualified)	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Depreciation is calculated on the following bases: • Buildings – straight line allocation over the useful life of the property as estimated by the valuer. • Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset. • Infrastructure – straight line allocation over the useful life of the asset. Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Consistent application of depreciation method across all assets.	Use professional valuers – (an externally appointed valuer, RICs qualified)	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption. The length of the life is determined at the point of acquisition or revaluation according to: • Assets acquired in the financial year are not depreciated until the following financial year. • Assets that are not fully constructed are not depreciated until they are brought into use. Useful life would be recorded in accordance with the qualified RICs members valuation and this would be cross checked to ensure this accords with the accounting policy for the Council.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The actuarial gains and losses figures are calculated by the actuarial expert Hymans Robertson. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Staffordshire County Council	The Council are provided with an actuarial report by Hymans Robertson (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Level 2 investments	Council values financial instruments at fair value based on the advice of their externally appointed treasury consultants and other finance professionals.	Based on advice from external professional	Yes	We employ external professional support. These investments relate to AAA rated Money Market Funds for which there is little prospect of any significant change in the valuation.	No
Level 3 investments	n/a	n/a	n/a	n/a	n/a
Fair value estimates	Council values financial instruments at fair value based on the advice of their externally appointed treasury consultants and other finance professionals.	Take advice from the relevant professionals.	Yes	Advice from professionals	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Finance, in conjunction with budget managers collate accruals of income and expenditure.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Credit loss and impairment allowances	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision, based on appropriate evidence.	No	Consistent proportion used across aged debt as per the Code	No
Finance lease liabilities	n/a	n/a	n/a	n/a	n/a

Appendices

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 Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-2022223-codes

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.

Prudential Code and Treasury Management Code – CIPFA

On 20 December 2021 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.

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 Scrutiny (Audit and Value for Money Council Services) Committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

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

Public Sector

Local government

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six opinion files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

Financial Reporting Council annual report (cont.)

Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

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 (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."

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states "In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report."

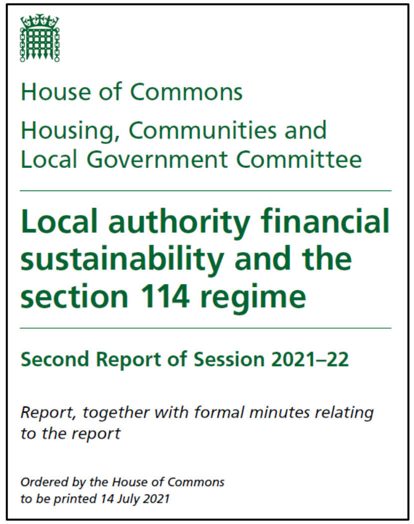
The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

The report made 13 recommendations, and the Government response to these was published in October. The response notes "Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms."

The initial report can be found here: https://committees.parliament.uk/publications/6777/documents/72117/default/

Government response can be found here: https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime


House of Commons
Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 14 July 2021

Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found "delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention."

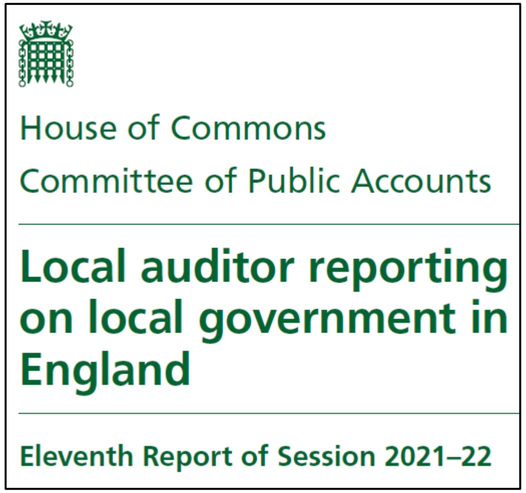
The PAC report found "Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors."

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.
- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here: [Timeliness of local auditor reporting on local government in England - Committees - UK Parliament]


House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state "The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete."

Grant Thornton commented "Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused."

The news article can be found here: https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

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:

- 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.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.

The news article can be found here: https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/

The procurement strategy can be found here:

https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/

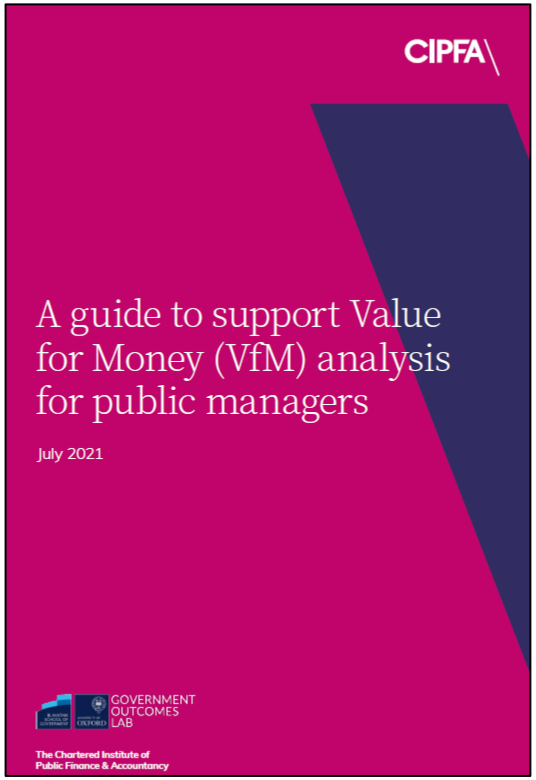
Guide to support Value for Money (VfM) analysis for public managers – CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state "The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to 'doing nothing' as well as the closest comparator."

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.



The guide is available to CIPFA members through the website.

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

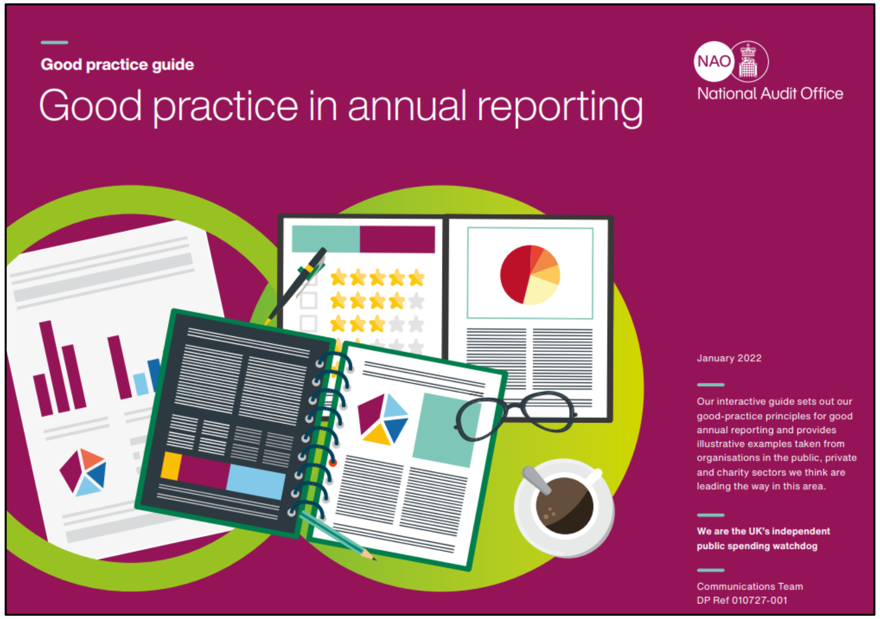
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

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]

Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

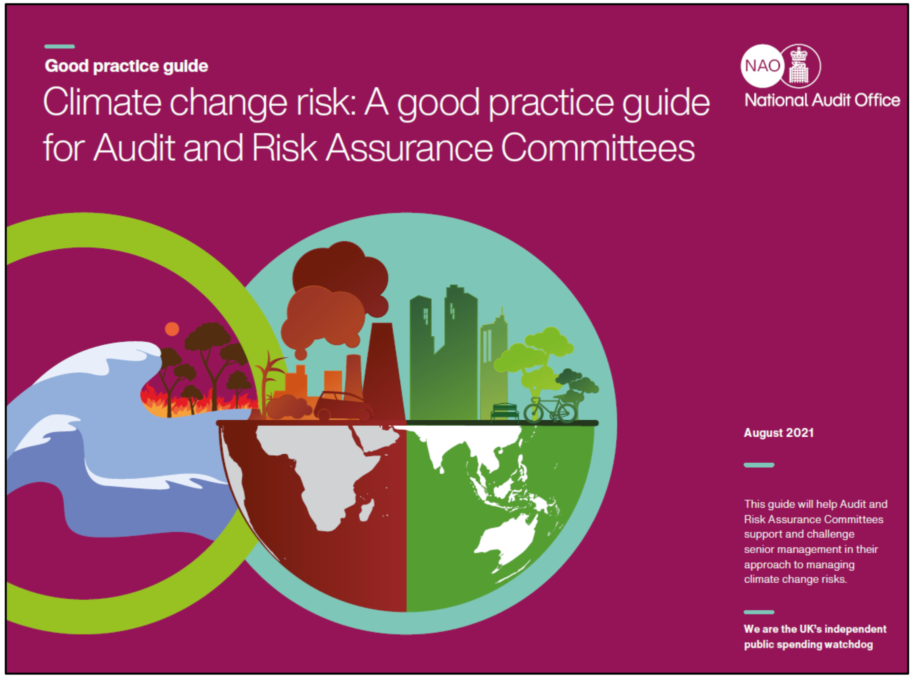
The NAO comment "Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes."

The guide includes sections on "How to support and challenge management". This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a "Complete list of questions that Audit and Risk Assurance Committees can ask" for each of these areas. The guide also includes "Key guidance and good practice materials" with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office (NAO) Report]

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Scrutiny Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

• clarify the role of local authorities in contributing to the UK's statutory net zero target; and

• ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach."

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities' reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

https://www.nao.org.uk/report/local-government-and-net-zero-in-england/

Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for Audit Committees to consider.

The NAO state "Audit Committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation's data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports Audit Committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

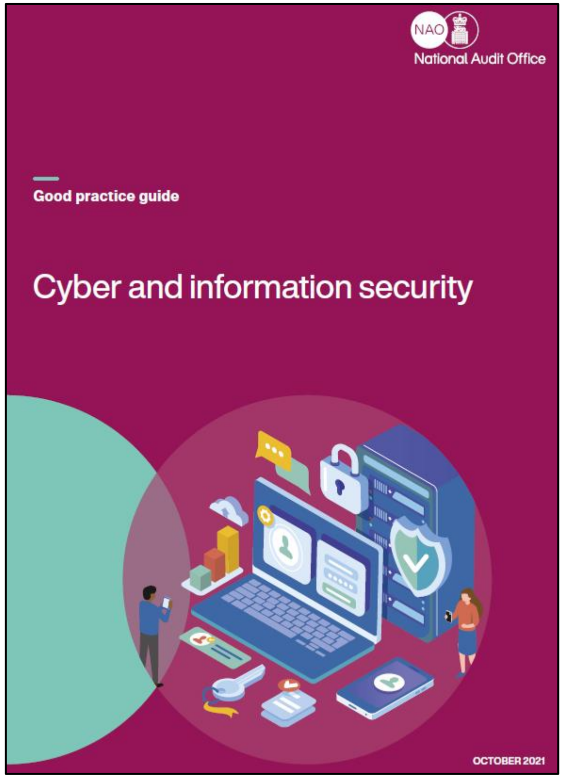
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management."

The report can be found here:

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/



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