

# Audit Progress Report

North East Lincolnshire Council

April 2021



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# 01

Section 01:  
**Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Audit and Governance Committee meeting with an update on progress in delivering our responsibilities as your external auditors and also includes at Section 2 for your information a summary of recent reports which we believe are relevant to your responsibilities.

## Audit progress

### Housing benefit claim

We completed our work and issued our report in early April. A minor change was made to the Housing benefit Claim submitted for audit but there were no significant no matters arising we are required to report to you.

### 2020/21 Audit

It is clear that the accounts preparation and audit will once again be significantly impacted by the COVID-19 working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues.

We have commenced our audit planning for the 2020/21 audit and will present our Audit Strategy Memorandum (ASM) to the next Audit and Governance Committee meeting. We have continued to hold regular discussions with the finance team and these help us to keep up to date with emerging issues that may impact on our external audit, with our audit expected to focus on the financial statement risk areas set out in the table below.

Financial Statement Risk	In 2019/20?	In 2020/21?	Description
Management override of controls	Yes	Yes	This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
Net defined benefit liability valuation	Yes	Yes	The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.
Valuation of Land and Buildings	Yes	Yes	The Council's accounts contain material balances and disclosures relating to its holding of land and buildings that are required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.
Recognition of Covid-19 Government grants	N/A	Yes	Throughout 2020/21, the Government has made available and provided substantial sums of grant support to local authorities including the general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses. There is a risk the correct accounting treatment has not been applied, with the focus of our testing on the completeness and accuracy of this income in 2020/21.

# 02

Section 02:

**National Publications**

# National Publications

	Publication/update	Key points	Page
<b>CIPFA</b>			
1	<b>Fraud and Corruption Tracker</b>	CIPFA's latest information has been published.	7
2	<b>Consultation on stronger Prudential Code</b>	CIPFA is consulting on the Prudential Code, including proposals to strengthen the requirements for commercial investments.	7
3	<b>CIPFA Bulletin 06 – Application of the Good Governance Framework 2020/21</b>	Provides updated guidance and takes into account the introduction of the CIPFA Financial Management Code 2019 during 2020/21.	7
4	<b>CIPFA Consultation – Service Reporting Code of Practice (SeRCOP) 2022/23: Service Expenditure Analysis (SEA)</b>	Consultation on the accounts reporting format for 2022/23	8
<b>MHCLG</b>			
5	<b>MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015,</b>	Consultation closed on the 1 <sup>st</sup> March 2021, the Accounts deadline set as 31 July 2021 and Audit deadline of 30 September 2021	9
6	<b>Proposals for unitary local government in Cumbria, North Yorkshire and Somerset</b>	The consultation asks a number of questions about each proposal around value for money, proposed geography of the council and impact of the proposal on local services.	9
<b>National Audit Office</b>			
7	<b>Local government finance in the pandemic, March 2021</b>	The report found that the Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government.	10
8	<b>Timeliness of local auditor reporting in England, 2020</b>	The report is based on published data, the views of local authority finance directors, key stakeholders in the audit landscape, and audit firms.	11

# NATIONAL PUBLICATIONS

## CIPFA

### 1. Fraud and corruption Tracker, February 2021

The latest CIPFA Fraud and Corruption Tracker (CFaCT), which includes local government data between 1 April 2019 and 31 March 2020, provides a baseline illustration about the prevalence of grant fraud in the public sector, just before unprecedented levels of COVID-19 grant funding for councils were released by the government in March of last year. The report follows previous warnings from the National Crime Agency and other law enforcement bodies of an increase in cases related to suspected COVID-19 grant fraud. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

The report also shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20. This year, 32% of respondents also stated their organisation had been a victim of a Distributed Denial-of-Service (DDOS)/hacking attack in the last 12 months, a 5% increase from the previous year. Survey respondents also expressed concern about councils' inability to tackle usual areas of fraud due to resource being re-directed into the processing and review of COVID-19 business grants.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/grant-fraud-represented-less-than-of-uk-public-sector-fraud-pre-pandemic>

### 2. CIPFA consults on a stronger Prudential Code, January 2021

CIPFA has launched a consultation on proposals to strengthen the Prudential Code, following growing concerns over local government commercial property investments. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. To date, the provisions in the Code have not prevented a minority of councils from taking on disproportionate levels of commercial debt to generate yield. The proposed changes are intended to prevent future misinterpretations of the Code and strengthen the necessary regard to its provisions to protect local decision making and innovation. The consultation will be open for 10 weeks and responses must be submitted by 12 April 2021.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-consults-on-stronger-local-government-prudential-code>

### 3. CIPFA Bulletin 06, Application of the Good Governance Framework 2020/21, February 2021

This bulletin covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-06-application-of-the-good-governance-framework-202021>

# NATIONAL PUBLICATIONS

## CIPFA

### 4. CIPFA Consultation – Service Reporting Code of Practice (SeRCOP) 2022/23: Service Expenditure Analysis (SEA)

The SEA sets out a framework for reporting local authority service expenditure. CIPFA are seeking opinions to inform the process of revising the SeRCOP, SEA and keeping it fit for purpose. CIPFA note that ensuring the accuracy of the current structure and the definitions therein is important, though they are also keen to challenge the usefulness of the analysis in the following ways:

- Do the expenditure divisions reflect how services are delivered and organised in practice?
- Do the service divisions provide the basis for robust, reliable, consistent and comparable information?
- Is the number of mandatory and discretionary levels about right in your service area?
- Are they well balanced in terms of the proportion of total costs in each division?
- Does the current breakdown help you in your benchmarking, policy or value for money analysis?

CIPFA are also interested in other recommendations for change for consideration for the 2022-23 edition of SeRCOP. Comments should be provided by 21 May 2021 ahead of a wider consultation in the summer. Further details are available on the CIPFA website. <https://www.cipfa.org/policy-and-guidance/consultations/cipfa-service-reporting-code-of-practice-sercop-2022-23-service-expenditure-analysis-sea>

# NATIONAL PUBLICATIONS

## MHCLG

### 5. MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015, February 2021

MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.

The draft regulations includes provisions, at regulation 2 to change the publication deadline for principal authorities from 31 July to 30 September as proposed in recommendation 10 by the Redmond review, but for 2 years - 2020/21 and 2021/22. The intention is for the amended deadline to be reviewed after that period when it will be clearer as to whether the audit completion rate has improved.

The draft regulations also enable principal bodies to publish their draft accounts for inspection, linked to the later publication deadline, by removing the fixed period for public inspection, to say instead that the draft accounts must be published on or before the first working day of August. This will allow authorities and audit firms more flexibility to schedule their audits in line with the later publication deadline but, importantly, will not prevent them from being signed off earlier. This mirrors the approach taken in the Accounts and Audit (Amendment) (Coronavirus) Regulations 2020.

MCHLG's consultation closed on 1 March 2021.

### 6. Proposals for unitary local government in Cumbria, North Yorkshire and Somerset

- The Ministry of Housing, Communities & Local Government (MHCLG) has announced the launch of a consultation on proposals for unitary local government submitted by councils in Cumbria, North Yorkshire and Somerset. Following a formal invitation from government last October to councils in these areas to submit proposals for reorganisation, the Local Government Secretary has received 8 locally-led proposals for consideration: 4 from councils in Cumbria and 2 each from councils in Somerset and North Yorkshire. The proposals outline
- how the councils who have responded to the invitation want to restructure local government in their area to establish unitary local government.
- The district and county council elections due to be held in May this year in the three areas will be rescheduled to May 2022 as a result of the consultation. Subject to Parliamentary approval, MHCLG expect any new unitary council to be fully operational from April 2023 with transitional arrangements expected to be in place from 2022, including elections in May 2022 to the shadow or continuing councils.

The consultation asks a number of questions about each proposal around value for money, proposed geography of the council and impact of the proposal on local services

# NATIONAL PUBLICATIONS

## National Audit Office

### 7. Local government finance in the pandemic, March 2021

The NAO published its report *Local government finance in the pandemic* in March 2021. Local authorities in England have made a major contribution to the national response to the pandemic. This has in turn placed significant pressure on finances, which in many cases were already under strain. The report examines if MHCLG's approach to local government finance in the COVID-19 pandemic enabled the Department to assess and fund the costs of the new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector. The report focuses on:

- The financial health of the sector before the pandemic and the financial impact of the pandemic in 2020-21;
- Action taken by the government to support the sector in 2020-21, including its effectiveness; and
- Action taken by government to support the sector's financial sustainability in 2021-22.

The report found that the Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector averted system-wide financial failure at a very challenging time and means that the Department managed the most severe risks to value for money in the short term. However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22, the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.

<https://www.nao.org.uk/report/local-government-finance-in-the-pandemic/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 9. NAO Report – Timeliness of local auditor reporting in England, 2020

On 16 March, the NAO published its report Timeliness of local auditor reporting on local government in England, 2020. Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit in England, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report sets out the:

- roles and responsibilities of local auditors and national bodies to the local audit framework in England; and
- facts relating to the decline in the timeliness of delivering audit opinions on local government in England and the main factors contributing to that decline in timeliness.

The report is based on published data, the views of local authority finance directors, key stakeholders in the audit landscape, and audit firms. The report also considers the impact on central government. Given the increasing financial challenge and service pressures on local authorities since 2010, local councils need strong arrangements to manage finances and secure value for money. The report concludes that the position for 2019-20, with 55% of local authorities failing to publish audited accounts by 30 November, is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally. Since the NAO reported on local authority governance and audit in 2019, and despite efforts by the various organisations involved in the local audit system and by the Ministry of Housing, Communities and Local Government, the report concludes that the situation has worsened. The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention, which will require co-operation and collaboration by all bodies involved in the local audit system, together with clear leadership from government.

<https://www.nao.org.uk/report/timeliness-of-local-auditor-reporting-on-local-government-in-england-2020/?slide=1>

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