

Audit progress report

North East Lincolnshire Council

September 2020



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1. AUDIT PROGRESS

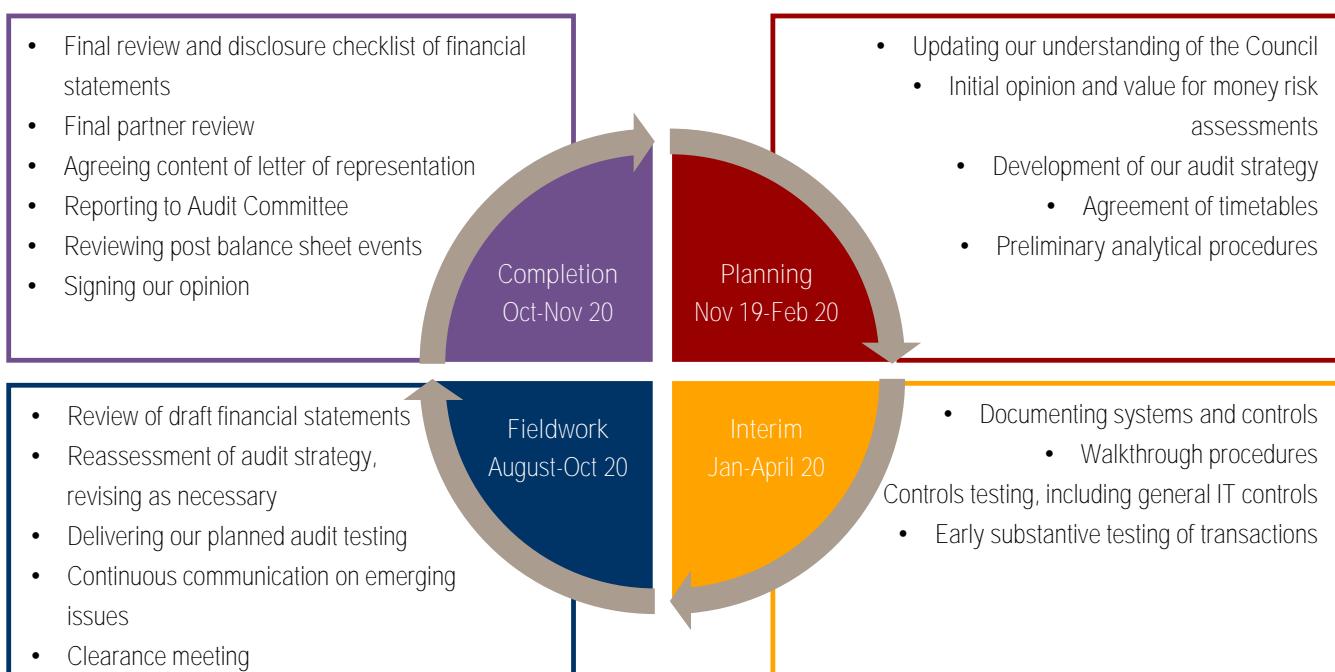
Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor.

Audit progress

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

Our key audit stages are summarised in the diagram shown below, with the revised timeline shown (revised statutory deadline of 30 November 2020). We receive the draft financial statements on the 14 August and we are currently carrying out our detailed work on them. We will report our findings in our audit completion report to the November audit committee. At this stage there are no matters to report to you.



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1. AUDIT PROGRESS

Responding to changes – working with the Council

All **Mazars**' staff moved to remote working from 16 March 2020. We are committed to supporting the Council as best we can, recognising first and foremost, the need to be flexible as the current environment changes and also potential pressures on the accountancy and finance teams of the Council. We have maintained open communication throughout this period and will continue to do so.

We are able to carry out the audit remotely and have put in place arrangements to allow this; for example, regular video conference calls and a shared site for secure transfer of data. The key difference is we will not, subject to any changes, have a physical on-site presence. We have maintained communication via e-mail, and regular telephone and video conferencing calls and will continue to do so.

Remote working has meant the audit is not likely to be as efficient as we would like or expect, including an extended period of query resolution. This is consistent across all our clients and a reflection of the impact of Covid19.

Covid19

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

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

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

Financial Statement Matters: Going Concern

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

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

Financial Statement Matters: Financial Instruments

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

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

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

RICS guidance has been issued which indicates that valuers are likely to conclude that there is "**material uncertainty**" over the valuation of land and buildings at the balance sheet date. We will need to consider the implications as part of our testing and conclusions.

2. SIGNIFICANT FINDINGS (CONTINUED)

Audit fees

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

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

We expect this to be a permanent uplift to the audit fee and will agree the fee with management before reporting to Audit Committee.

In addition to the fees relating to scope changes to the valuation of land and buildings and in relation to the pension fund assets and liabilities, there is additional audit testing and audit work required relating to:

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

Any additional audit fees associated with these items, will be agreed with management prior to reporting to the Audit Committee.



2. NATIONAL PUBLICATIONS

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

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

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

	Publication/update	Key points
Ministry of Housing, Communities and Local Government (MHCLG)		
-	Covid-19 resources	https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government Link to MHCLG Covid-19 resources.
National Audit Office (NAO)		
-	NAO Covid-19 hub	https://www.nao.org.uk/covid-19/ Hub set-up by the NAO to collate all their Covid-19 work, including planned publications.
1.	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19	Sets out some questions to help audit and risk committee members understand and challenge activities.
2.	Overview of the UK government's response to the COVID-19 pandemic	First of a programme of work to be undertaken by the National Audit Office to support Parliament in its scrutiny of the UK government's response.
3.	Code of Audit Practice	New Code governing work of auditors, applying for 2020/21 audit years onwards.
4.	Universal Credit: getting to first payment	The Department needs to better understand and address the needs of vulnerable people and those with more complex claims, who may be at greater risk of struggling under the Universal Credit regime.
Local Government Association (LGA)		
5.	Councillor resources	Guidance to support Councillors in supporting their wards; being updated on a regular basis.
Financial Reporting Council and other regulators		
6.	Statement in respect of current situation	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.
7	Redmond Review	

2. NATIONAL PUBLICATIONS

1. Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, National Audit Office, June 2020

The National Audit Office's (NAO) guide sets out that audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.

Scope

This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

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

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

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

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

This report is the first of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its **scrutiny of the UK government's response to COVID-19**. The UK government is implementing an extensive range of measures in response to the COVID-19 pandemic. This report presents a factual summary of:

- the background;
- government activity and costs; and
- The NAO's approach to examining the UK government's response.

The report provides a summary of the government's actions to date. It does not assess the value for money of the measures adopted by government or the effectiveness of its response. The report covers the main actions taken by the UK government in England, as well as the funding provided to support responses in the devolved administrations of Northern Ireland, Scotland and Wales. It does not cover the individual responses in the devolved administrations, or the separate responses implemented by local authorities. **The report covers the government's response up to 4 May 2020, and also includes any significant additional commitments (defined as those over £0.5 billion) the government announced between 4 and 15 May.**

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

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3. Code of Audit Practice, National Audit Office, April 2020

Local public bodies are audited by firms appointed as local auditors. Every year, they carry out their work auditing these bodies' accounts and assessing the adequacy of their arrangements to secure value for money. They carry out this work in accordance with the Code of Audit Practice which is set by the National Audit Office.

The Code, which came into effect in April 2020 sets out what local auditors of relevant local public bodies, such as councils, police, fire and NHS bodies, are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.

The new Code will apply to audits of local bodies' 2020/21 financial statements.

Key changes to the Code include the introduction of a narrative-style commentary on bodies' arrangements for securing value for taxpayers, a sharper focus on arrangements supporting financial sustainability, governance, and improving value for money, and clearer expectations on timely and effective auditor reporting.

The final draft maintains the principles-based approach through a single Code covering both local government and NHS sectors.

Link to NAO blog post on the new Code: <https://www.nao.org.uk/naoblog/the-new-code-of-audit-practice-helping-local-public-services-rise-to-the-extraordinary-challenges-ahead/>

Link to the new Code: <https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

4. Universal Credit: getting to first payment, National Audit Office, July 2020

Many people claim Universal Credit at a challenging time in their lives. As such, the initial wait, which is an inherent part of Universal Credit's design and operational processes, does not cause all the issues that claimants may face but, in the context of many claimants' existing financial difficulties, can exacerbate their problems.

Since the National Audit Office (NAO) last reported, the Department has improved the proportion of people getting their first Universal Credit payment on time and in full to around 90%. It deserves credit for its organised approach to making changes and its improved performance. Although the cost of administering each claim is still higher than expected, the Department has demonstrated an ability to gradually make Universal Credit claims more cost-efficient by automating and improving processes. It needs to demonstrate a similar determination to tackle the high levels of fraud and error.

The Department has succeeded in improving payment timeliness so far by improving processes that affect large numbers of people. However, as the Universal Credit caseload has grown, a large number of people still do not receive their full payment on time. Vulnerable people may be particularly likely to struggle with their claim. The Department needs to better understand and address the needs of vulnerable people and those with more complex claims, who may be at greater risk of struggling under the Universal Credit regime.

<https://www.nao.org.uk/report/universal-credit-getting-to-first-payment/>

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5. Councillor resources, Local Government Association, on-going

The Local Government Association (LGA), has issued a number of publications including 'Covid-19 reset and recovery'.

<https://www.local.gov.uk/our-support/coronavirus-information-councils/covid-19-support-your-role/covid-19-councillor>

6. Statement on Covid-19, Financial Reporting Council and other Regulators, March 20200

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

The statement sets out that:

"Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly. Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information"

This statement highlights:

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

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

7. Redmond Review

We welcome the publication of Sir Tony Redmond's Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. This report covers local audit regulation, procurement, auditor performance, governance, the scope of audit work and local authority financial reporting.

As a firm committed to working with public services and the communities they serve, we see this important report as an opportunity to strengthen the arrangements for local audit, thus improving confidence and transparency in public finances.

We're pleased to see the Review recognise the complexity and importance of public audit and that all parties – including external auditors, regulators, standard setters, local authorities and audit committees – have a role to play in its development and sustainability.

Amongst the recommendations arising from the Review are:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit
- reviewing reporting deadlines
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Secretary of State for Local Government.

The report is available at: <https://www.gov.uk/government/news/results-of-independent-review-into-quality-of-council-audits-published>

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