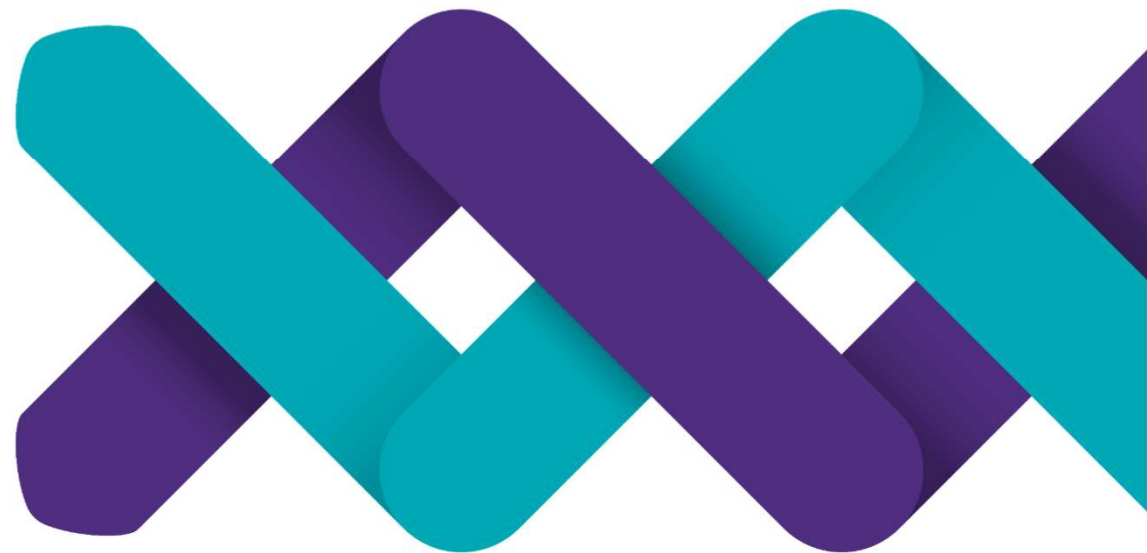


Audit Progress Report and Sector Update

Sandwell Metropolitan Borough Council

1 February 2021



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Introduction



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This paper provides the Audit and Risk Assurance 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 Audit and Risk Assurance Assurance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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

Progress at 1 February 2021

Financial Statements Audit 2019-20

We are nearing completion of the 2019-20 audit and plan to issue our Audit Findings Report during February 2021, with the opinion on the accounts issued soon after.

The deadline for completing the audit was November 2020. The audit has taken longer than expected for several reasons although there are two key areas that have contributed to the delay:

- In both 2018/19 and 2019/20 we faced particular difficulties in completing the audit of the council's property plant and equipment balances. The expectations by our regulators on the extent of work required on these balances has increased extensively over the last two years. This has required greater scrutiny, challenge and the need for more detailed evidence to support the valuation estimates. Our more detailed work has identified that the manner of recording and maintaining key information on property, in particular the asset registers held by the finance team and the property records held by the property (SAM) team are not commensurate with a council of this size. For example, the Council does not have a computerised asset register for accounting purposes. Records are held on excel spreadsheet.
- Consequently it is time consuming to both prepare this part of the accounts and for us to audit the data. This has contributed to the errors identified in the audit and the considerable delays in us agreeing assumptions and information back to source data. We will provide more detail in the audit findings report although management has accepted the need for improvement in underlying records and for better engagement with external valuers as part of the 2020/21 closedown process.
- The other key reason for the delay relates to the audit of provisions. We challenged management on the basis of the provision for impairments in the accounts (bad debt provisions) and also the level of business rates appeals provisions. As a consequence management has reviewed the basis of all the key provisions and some significant changes have been made. We are currently reviewing the basis of these new estimates.

We are working closely with the finance team to resolve all outstanding matters as soon as possible.

Value for Money 2020-21

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory deadline.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020. The NAO has issued auditor guidance on the approach in October 2020.

Progress at 1 February 2021 (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 2019/20 claim is underway and we plan to be able to complete our work by the original deadline of 30 November deadline. Although it should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021. The testing identified several errors which meant that a number of additional workbooks had to be completed and tested by our team. The council has obtained an extension to the end of February and we anticipate completing our work by then.

Meetings

We formally meet weekly with the finance team to progress the current audit. We also meet monthly with the Acting S151. Monthly meetings have also been put in place with the Chief Executive to discuss current issues for the wider council.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers are invited to our Financial Reporting Workshop in February, which will cover the latest financial reporting requirements for local authority accounts.

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

