

# Audit Progress Report

Stockton-on-Tees Borough Council

February 2021



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# 01

## Section 01: **Audit Progress**

# Audit Progress

This report sets out progress on the external audit and other services for 2020/21.

Overall audit progress is on track, with no significant issues arising that we are required to report to those charged with governance. Our timetable for preparing and issuing our Audit Strategy Memorandum (Annual audit plan) is later than the timeline in previous years due to the introduction of new responsibilities under the 2020 Code of Audit Practice which is effective from 2020/21 audits, and recent receipt of some of the guidance supporting the new approach. Further information is provided below.

## Accounts audit

In the period since completing our 2019/20 audit, in early December 2020, we have:

- prepared, agreed with management, and presented our 2019/20 Annual Audit Letter to the Audit and Governance Committee in January 2021. We will present it to Cabinet in February 2021;
- held liaison meetings with management; and
- had liaison with finance in respect of their plans for obtaining assurance over property, plant and equipment valuations for the 2020/21 accounts.

In the coming period we plan to:

- undertaken initial planning work for our 2020/21 audit, including undertaking our walkthrough testing, planning and implementing any early testing, as well as meeting with relevant officers; and
- develop and agree our 2020/21 Audit Strategy Memorandum (Annual audit plan) with management, which will be presented to the Committee at its next meeting, and draft and agree our 2020/21 External Audit / Internal Audit Protocol with Internal Audit.

The timeline has been released by the government for the 2020/21 accounts process. The target date for publication of audited accounts (and final Annual Governance Statement (AGS)) by local government bodies is to be 30 September 2021. The date for publication of unaudited accounts (inc draft AGS) currently remains at 31 May 2021.

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## **Value for money arrangements**

Members will recall that the approach to our responsibilities for Value for Money change with the introduction of the new Code of Audit Practice 2020, effective from 2020/21 audits.

We have received some initial guidance issued by the National Audit Office (NAO) in October 2020, and have set out some of the key points below. In the coming period, we will consider this guidance, how it impacts on our work, and the information we will need from the Council, and then plan any risk based work required to meet our responsibilities under the new guidance. Our planned approach will be set out in our 2020/21 Audit Strategy Memorandum (Annual audit plan).

We set out below the key changes from the initial guidance received.

## **Value for money arrangements; new guidance for auditors**

The initial guidance for the new approach was issued in October 2020 by the NAO in the form of an updated Auditor Guidance Note (AGN); AGN03. The supporting information for the relevant sector for the Council, that underpins AGN03, and is usually updated each year, has not yet been issued.

The key matters set out in the updated AGN 03 are:

- The aim of the approach set out in AGN03 is to re-focus 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; and
  - provide clearer recommendations to help local bodies improve their arrangements.

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- From 2020-21 audits onwards, the key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, published as part of the Auditor's Annual Report. The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body's attention, along with their recommendations for improvement. The commentary will, however, also allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.

The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor's Annual Report; it is therefore not a VFM arrangements 'conclusion' or an 'opinion' in the same sense as the opinion on the financial statements themselves. There is a statutory duty to report where the auditor is not satisfied that adequate arrangements are in place, and this would be reported on an exception basis where 'significant weaknesses' are identified. This means that there may be matters referred to in the auditor's commentary, but which do not represent significant weaknesses in arrangements and therefore do not appear by exception in the auditor's opinion on the financial statements.

- There are 3 new specified reporting criteria:
  - **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services, including:
    - how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
    - how the body plans to bridge its funding gaps and identifies achievable savings;
    - how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
    - how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
    - how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

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- **Governance:** how the body ensures that it makes informed decisions and properly manages its risks, including:
  - how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
  - how the body approaches and carries out its annual budget setting process;
  - how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
  - how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
  - how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).
- **Improving economy, efficiency and effectiveness:** how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:
  - how financial and performance information has been used to assess performance to identify areas for improvement;
  - how the body evaluates the services it provides to assess performance and identify areas for improvement;
  - how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
  - where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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- The auditor approach falls into 3 main categories:
  - Planning
  - additional risk-based procedures and evaluation; and
  - reporting.

Some of the areas map from the previous approach to value for money, and as such we have good knowledge of the Council's arrangements. However, some do not and to enable us to undertake our planning, and/or risk based procedures, we will require information from the Council.

A full copy of AGN03, which includes further details on identification of and some illustrative examples of significant weaknesses, is available on the NAOs website at: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>



# Audit Progress

## Certification of claims and returns

As members will be aware, the Council is required by funding bodies to arrange independent certification of a range of grant claims and returns.

Work on claims and returns since our last update includes:

- 2019/20 Teachers Pension Return; we agreed an engagement pack with management, the fee being £4,150 plus VAT, and our work was undertaken in October and November 2020. We issued our report on 25 November 2020, ahead of the deadline of 30 November 2020. No amendments were made to the claim, but our work did note two exceptions which we reported to Teachers' Pensions. These related to very minor differences in respect of contributions for 5 employees, and that manual adjustments to the underlying records were required by officers in order to reconcile the payroll system to the claim. We understand Teachers' Pensions are following up with officers.
- 2019/20 Housing Benefit Subsidy Claim; we agreed an engagement pack with management, the proposed fee being £10,900 plus VAT. Our work is now complete, and no adjustment to the fee is necessary. The deadline was set by DWP as 31 January 2021, however authorities were able to apply for an extension where required. The Council did this, and we have now issued our report to DWP, ahead of the extended deadline. No amendments were made to the claim. No issues were identified in our sample testing of cases that impacted on subsidy claimed. We were required to report some matters to DWP as a result of our work, however, none were significant in value and related to:
  - Review by the Authority of benefit payments made in March 2020 identified rent rebate of £357.81 and rent allowance of £5.35 in respect of a period which wholly fell into 2020/21, and per the guidance this subsidy should have been claimed in 2020/21 and not 2019/20; and
  - One case that related to a benefit underpayment of £35.

# 02

Section 02:  
**National Publications**

# National Publications

	Publication/update	Date published	Key points	Page
<b>National Audit Office</b>				
1	Auditor Guidance Note 03	October 2020	Sets out the framework for auditors work on value for money arrangements effective; 2020./21 audits	12
2	Local auditor reporting application	December 2020	Data on local auditor reporting presented through an interactive map	12
<b>CIPFA</b>				
3	A Guide to Local Authority and Public Sector Asset Management	November 2020	Asset management guidance	12
<b>MHCLG</b>				
4	Local Authority Financial Reporting and external audit: independent review	September 2020	The Redmond report	13
5	Local Authority financial reporting and external audit: government response to the Redmond review	December 2020	MHCLG's response to Sir Tony Redmond's independent review	13
<b>PSAA</b>				
6	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	September 2020	PSAA Audit Quality report	14
<b>Financial Reporting Council</b>				
7	Local Audit Inspections	October 2020	FRC Audit Quality report	15-16

# NATIONAL PUBLICATIONS

## National Audit Office

### 1. Auditor Guidance Note (AGN) 03, October 2020

The updated AGN03 sets out the approach to value for money for local auditors with effect from 2020/21 audits.

Details are set out in section 1 of this progress report.

### 2. Local auditor reporting application, December 2020

'*The local auditor reporting application*' presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

## CIPFA

### 3. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

# NATIONAL PUBLICATIONS

## MHCLG

### 4. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

### 5. MHCLG's response to Sir Tony Redmond's independent review, December 2020

MHCLG has published its response to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they *"do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission"*. They added that they *"will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function."*

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Limited

### 6. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

<https://www.psa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/>

The PSAA Press release regarding late 2019/20 opinions can be found at:

<https://www.psa.co.uk/2020/12/news-release-2019-20-audited-accounts/>

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 7. Major Local Audits – Audit Quality Inspection, October 2020

#### The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

#### Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found [here](#). This also includes our detailed response to their findings on our financial statement audits.

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 7. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

#### What this means for the Council

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (including investment properties) and the audit of defined benefit pension liabilities, we must do more to meet the regulator's expectations. This means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Council's own experts. There will be consequential effects on the fee that we are likely to request from the Council to undertake the audit.



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