

Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2021

4 March 2021



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Introduction



Grant Patterson

Engagement Lead

T 0121 232 5296

E grant.b.patterson@uk.gt.com



Mary Wren

Engagement Manager

T 0121 232 5254

E mary.wren@uk.gt.com

This paper provides the Audit 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 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 February 2021

Working with you

Changes in the Engagement Team

Richard Percival will be retiring at the end of March and is therefore stepping down as the Council's Engagement Lead (EL). Grant Patterson will be picking up those responsibilities from him. Grant has previously been the Council's EL but sufficient time has elapsed such that he is now able to return under ethical standards. Grant has extensive experience in the sector and looks forward to working with the Council again and forging strong working relationships with management and those charged with governance as the Council continue to navigate challenging times. Grant's CV can be found on page 15.

Meetings

Grant has introductory meetings booked with James Walton in March. We also met with Finance Officers in February as part of audit planning for 2020/21. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Our annual chief accountant workshops are taking place over the next few weeks and continue into early March. Delivered virtually this year we still offer break-out areas to provide opportunities for your finance officers to speak to peers across the sector in addition to gaining an understanding of the key changes impacting this year's accounts.

Working Arrangements

We envisage having to continue to work completely remotely for a longer period. Working with the Council we managed this well at the last audit and we will seek to be in regular contact with your finance team in respect of the logistics of these arrangements, recognising that staff and patient welfare during and the pandemic will be your priorities. The use of Inflo will further develop remote working arrangements.

2019/20

Following on from the meeting of the Audit Committee on 10 December 2020 we have now certified completion of the 2019/20 financial statements.

The Annual Audit Letter for 2019/20 is also presented to this Committee.

Certification of claims and returns

We certify the Council's annual Housing Benefit return in accordance with agreed procedures. The certification work for the 2019/20 claim was completed in advance of the 31 January 2021 deadline. Further details are provided on page 6.

Our certification work in relation to the Pooling of Housing Capital receipts and Teachers Pension is nearing completion. We have now received final pieces of evidence to complete our testing.

2020/21

Financial statements

Our formal planning work commenced during February. We have summarised our considerations at this time on page 6. In addition to this we will:

- continue to have regular discussions with management to inform our risk assessment for the 2020/21 financial and value for money audits
- review board papers and latest financial and operational performance reports
- consider any reports from regulators regarding your clinical / operational effectiveness.

Our planning work has started later than last year as a result of the pandemic and we expect to be in a position to be able to issue our audit plan summarising our approach to the significant audit risks next month. Due to the unprecedented circumstances presented by the COVID-19 pandemic, we will be reviewing our establishment of significant risks to ensure these correspond to the arrangements which have been in place in the sector in 2020/21.

We hope to conduct early substantive testing of key areas including all revenue streams, operating expenditure, payroll costs and capital.

We will report any findings from our interim audit in these progress reports received at each meeting of the Audit Committee.

Value for money

We have included a presentation on the new approach within this report. On page 7 we have also summarised this on a page for members of the Audit Committee. We are in the process of requesting information and arranging meetings with key personnel at the Council in order to progress this work.

Inflo

A part of our continued investment to ensure the audit process is as smooth and efficient as possible, we have entered into a partnership with Inflo Software, a purpose build cloud based solution. This has been used across our client base for over 2 years.

Inflo has a number of benefits, one of these being the ability for all staff involved in the audit to work more flexibly. Inflo is available on any device and with access to the Internet can be accessed from any location.

The Council's Finance and IT teams have been involved in the initial set up of the system and audit requests for early work have now been added to the system.

Further detail regarding Inflo can be seen on pages 12-14.

Financial Statements Audit 2020/21

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.

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 will expect our work to focus on.

Presumed significant risks

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

- Revenue recognition may be misstated due to the improper recognition of revenue. 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 ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the Council has been in receipt of additional revenue streams this year and we will be documenting the business processes of these and existing streams as part of our planning procedures to help inform our consideration of the revenue recognition risk.
- 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.

Other potential significant risks at time of writing

Valuation of land and buildings - The Council revalues its land and buildings on a five-yearly basis. To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1,069 million in the Council's balance sheet as at 31 March 2020) and the sensitivity of this estimate 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 net pension liability - The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.891m in the Council's balance sheet as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. It is expected that the net pension liability will continue to be identified as a significant risk.

Other expected areas of focus

- We set out on pages 9 and 10 detail pertaining to the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of property plant and equipment, as well as the net pension liability, on the grounds that they are large and complex estimates in the accounts, this will occur to an even greater extent in 2020/21. This will also apply to any other material estimates made by management.
- *Practice Note 10: The application of auditing standards for public sector audits* was updated in November 2020. Revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. We are awaiting further NAO guidance but whilst our consideration of material going concern uncertainties will continue we do not anticipate this being a significant risk in 2020/21.

Housing Benefit Assurance Process (HBAP):

Housing Benefit Certification 2019/20

Background

The HBAP Module 1 framework sets out the Department for Work and Pensions' (DWP) requirements for the reporting accountant to provide a report of factual findings on the completion of the housing benefit subsidy assurance process.

Shropshire Council – 2019/20

Due to the nature of the welfare system this is inherently a complex and multifaceted area, and because of the number of errors identified historically in the claim, there is automatically a high level of testing that needs to be undertaken (to see if the errors have been addressed), before taking into account any new issues identified in the current year.

We identified some continuing and new issues from our certification work and, as a result of the errors identified, the claim was qualified, and we reported our findings to the DWP in our Reporting Accountant's Report dated 30th January 2021.

| Year | Value | Amended? | Amendment | Qualified |
|---------|-------------|----------|-----------|-----------|
| 2018-19 | £59,614,497 | Yes | £426 | Yes |
| 2019-20 | £52,120,813 | Yes | £708 | Yes |

The Council completes the workbooks for us to review and re-perform work on cases on a sample basis. The quality of evidence within the workbooks was good.

CAKE (cumulative audit knowledge and experience) testing

In line with the requirements of HBAP modules we undertook CAKE testing based upon the 2018/19 Qualification Letter. Where the sub-populations are small the Council has completed 100% testing of all cases which then allows the claim form to be amended for actual errors identified. For larger populations a sample of 40 cases are selected at random and results are extrapolated and included in the qualification letter. CAKE testing is focussed on the reason for the case failure, for example, the entry of incorrect earnings into the calculation.

A summary of our testing based on CAKE is given below:

- Non-HRA Rent Rebates – Testing of earnings used in calculation- 1 error identified
- Non-HRA Rent Rebates – Testing of tax credits used in calculation – 1 error identified
- HRA Rent Rebates – Testing of earnings used in calculation – 4 errors identified
- HRA Rent Rebates – Testing of self-employed income used in calculation – 7 errors identified. 100% testing has been completed and cell amendment made to the claim form.
- HRA Rent Rebates – Testing of classification of overpayment – 2 errors identified
- Rent Allowances – Testing of occupational pension used in calculation. – 3 errors identified
- Rent Allowances – Testing of earnings used in calculation – 10 errors identified
- Rent Allowances – Testing of the capital tariff used in calculation – 6 errors identified
- Rent Allowances – Testing of self-employed income used in calculation. – 2 errors identified
- Rent Allowances – Testing of tax credits used in calculation. – 1 error identified

We have re-performed a sample of the Authority's testing and concur with the Authority's results.

Issues identified this year

Similar to prior years, a Reporting Accountant's report was produced, with all content and errors agreed with the Authority prior to submission. We are happy to provide a copy of this letter separately should members wish but, in summary, our findings were as follows:

Initial Testing

Non HRA Rent Rebate

The following errors were noted:

- One case where the incorrect capital amount had been applied to the calculation of benefit. It was possible to identify all cases for testing therefore 100% testing has been completed and the relevant cell amendment made to the claim form.

HRA rent rebate

- No error were identified.

Rent Allowance

- No errors were identified.

We would like to extend our thanks to the benefits team.

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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 Code introduced a revised approach to the audit of Value for Money. (VFM)

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

- A new set of key criteria, covering financial sustainability, governance 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 Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. As follows:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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 Audit 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?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Financial guarantees

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures Cont'd

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquiries on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

Audit Deliverables

| 2020/21 Deliverables | Planned Date | Status |
|---|----------------|-------------|
| Fee Letter Outlining the proposed audit fee for 2020-21. | April 2021 | Not yet due |
| Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2020-21 financial statements and a Conclusion on the Council's Value for Money arrangements. | June 2021 | Not yet due |
| Audit Findings Report The Audit Findings Report will be reported to the Audit Committee. | September 2021 | Not yet due |
| Auditor's Report This is the opinion on your financial statement, annual governance statement and value for money conclusion. | September 2021 | Not yet due |
| Auditor's Annual Report This letter communicates the key issues arising from our work. The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The AAR will be published at the same time as the Auditor's Report | September 2021 | Not yet due |

Inflo: Overview



Inflo - Project management

The module within Inflo which is used for the collection of working papers and the administration of audit requests is known as 'request and share'. We use the request and share function across our client base. An example of the key processes involved and screenshots from live Inflo user files are shown below:

1. The audit team set up the key contacts for the project. These will be the individuals who will provide the responses to audit requests along with the audit team contacts

| Name | Email | Role | Last Login | Active/Engagement |
|-----------------|-----------------------------------|-------------------|------------|-------------------|
| Thomas Greenall | tom@shropshire.gov.uk | Senior | 14/01/2019 | Active |
| Thomas Greenall | Thomas.Greenall@shropshire.gov.uk | Senior | 14/01/2019 | Active |
| Mark Russell | mark.russell@shropshire.gov.uk | Engagement Leader | 14/01/2019 | Active |
| May Wilson | may.wilson@shropshire.gov.uk | Manager | 14/01/2019 | Active |

2. The audit team details the working paper or information required. Once submitted on Inflo a notification email is sent to the nominated client contact to indicate they have a task waiting.

IT environment questions

Due Date: 29 January 2019
 Submitted On: 22 January 2019
 Responsible Engagement Team: Thomas Greenall
 Responsible Client Team: Annalee Russell
 Description: As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment.

3. The client contact responds to the request, uploads relevant supporting information and submits back to the to the audit team.

IT environment questions

Due Date: 29 January 2019
 Submitted On: 22 January 2019
 Responsible Engagement Team: Thomas Greenall
 Responsible Client Team: Annalee Russell
 Description: As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment. You may need to forward this to a relevant contact within your IT department.

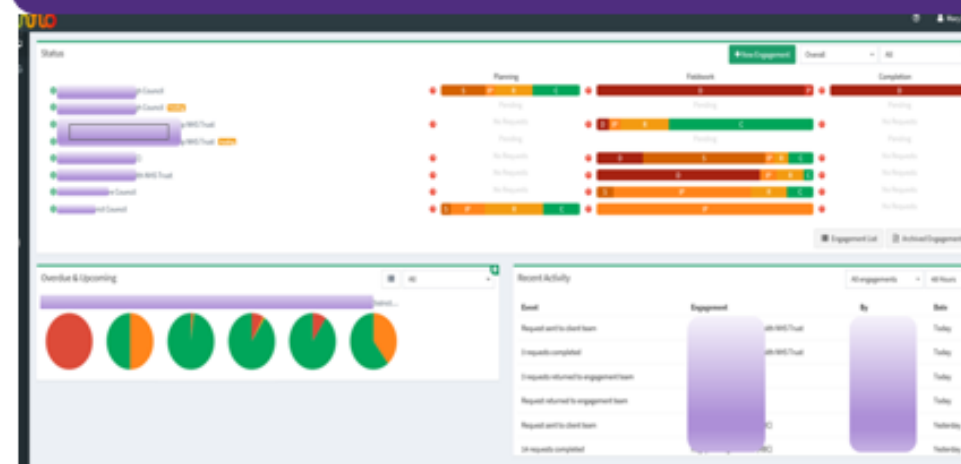
Comments: Documents downloaded and will be passed to IT colleagues for review and completion. 22 January 2019 12:08:07C

Files:

| File Name | Size | Uploaded By | Uploaded On |
|-----------|----------|-----------------|-------------|
| 2.0.docx | 24.71 KB | Thomas Greenall | 27 Jan 2019 |
| 2.0.docx | 34.83 KB | Thomas Greenall | 27 Jan 2019 |

Report Close

4. Inflow provides a user friendly dashboard view which will indicate the status of information requests.



Inflo – client experience

“

“As a newcomer to Inflo, I have found it really easy to use and navigate. It has really streamlined how we receive requests for and provide information to Grant Thornton and allows us to easily keep track of how our audit is progressing. It is also reassuring to know that our information is being shared securely”

Dudley Integrated Health and Care NHS Trust

“Inflo has improved our ability to monitor progress against the audit tasks required, It has removed duplication and is user-friendly as all of the team can access the system.

It is easy to see the deadlines for completion of tasks and enables us to log any ad hoc requests received during the course of the audit. We also like that we are able to inspect documents that we have already uploaded and add further information and notes if required.

The ability to re-assign tasks to other team members is great when there are cases of staff being unavailable. We love how all of the instructions are contained in the request so we have one source to refer to rather than a trail of emails”

Warwick District Council

“We are under continued pressure to streamline processes and information flow both with our internal and external stakeholders I was delighted to discover that this new portal approach (inflo) was being rolled out to us. This has enabled us to;

- have access to the audit requirements over the planned visits for the closure of accounts
- provide the ability to redirect tasks where necessary.
- upload information directly into a centralised area which prevents risk of information being lost.
- give transparency of the information flow between the audit team and RBC.
- clearly understand the progress being made at any point in time.
- plan more effectively on information requirements over the whole closedown period
- I am confident that this will only improve both the speed and delivery of the overall process”

Rugby Borough Council

”

Your returning Engagement Lead



Engagement Lead – Grant Patterson, Director (BSc Hons, CPFA)

Grant is a Director in our Midlands public audit practice – a team of over 80 specialist professionals, and is a member of the practice's leadership team. Grant trained with the Audit Commission in Kent and London. He spent time within the Audit Commission's technical team before returning to the field as a District Auditor and joining Grant Thornton as a Director in 2012.

Grant is both committed and passionate about the public sector and has over 30 years of LG audit experience working with parish, district, county and unitary councils and also police and fire bodies. Grant has over 12 years' experience as a public sector specialist Engagement Lead: four years as a District Auditor with the Audit Commission and eight years as a Director at Grant Thornton.

He has also been review partner at a number of significant public bodies and panel member in dealing with significant accounting judgements on individual clients.

In addition to Shropshire Council and Shropshire Pension Fund, Grant's current LG portfolio includes Leicester City Council, West Midlands Combined Authority, West Midlands Pension Fund, Warwick DC, Rugby BC, Nuneaton and Bedworth BC and Oadby & Wigston BC.

Grant is also Engagement Lead for four NHS Trusts one of which is Shropshire Community Health NHST.

Sector Update

Councils 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 audit 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

New NAO Code of Audit Practice for 2020-21

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work.

The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed.

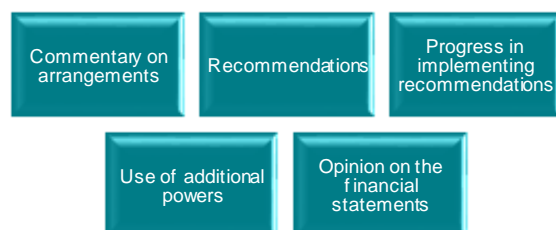
Public consultation on this ended 2 September 2020.

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; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VfM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Chief Operating Officer shortly.

To review the new Code and AGN03 click [here](#)

