

Audit Progress Report

Rossendale Borough Council

July 2020





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit & Accounts Committee with an update on progress in delivering our responsibilities as your external auditors, including in relation to our work on the Council's Housing Benefit Subsidy claim.

The report also seeks to highlight, at Section 2, key emerging national issues and developments which may be of interest to Members of the Committee.

Audit progress – Financial Year 2018/19

This is our first Audit Progress report to the Committee, the work outlined below has been completed since we became the external auditors of the Council:

- Undertaken our audit planning work. This has incorporated:
 - Documenting our understanding of the Council; including the Council's governance structure, key accounting policies, service organisation, and external advisors.
 - Documenting our understanding of the key financial systems relevant to the financial statements, and the key controls that the Council has in place to prevent, detect and correct material misstatements to the financial statements.
 - Carrying out walkthrough tests of key controls to confirm that they are operating in the manner they have been designed.
- Undertaken substantive audit work relating to the Council's 2018/19 expenditure. This has incorporated:
 - Carrying out detailed testing of a sample of payroll expenditure transactions.
 - Carrying out detailed testing of a sample of operating expenditure transactions.
- Met with the Chief Executive and Section 151 Officer and maintained regular liaison with and the finance team.
- Held a meeting with the Council's external valuer, Capita, to discuss the valuer's approach to valuing the Council's land & buildings, and to highlight our approach to auditing the valuations.

From the work carried out to date there are two issues we would like to bring to the attention of the committee:

- Within the draft Statement of Accounts for 2018/19 the Council's PPE balance includes a number of assets which have not been revalued for a number of years (up to 4 years), additionally the assets which have been formally revalued in the year have a valuation date of 1 April 2018. The Council must assure themselves that these assets are held at a valuation which is materially correct as at 31 March 2019, and we have recommended officers obtain updated revaluations as at 31 March 2019 for all assets.
- Since the draft Statement of Accounts for 2018/19 were prepared, there have been court judgements (McCloud/GMP) which are likely to impact upon the valuation of the Council's pension liability. The Council should assure themselves that their actuarial valuation of the LGPS pension liability remains materially correct.

Our proposed audit programme

Our 2018/19 Audit Strategy Memorandum will be presented to the Committee once the prior years audits have been closed.

1. AUDIT PROGRESS

Certification of Housing Benefits subsidy claim

This is an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to DWP for housing benefits, as detailed in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The total subsidy claimed for 2018/19 per the final claim was £17,706,349. We reported the findings of our testing to DWP on 28 November 2019. Within this report, we highlighted a number of errors identified from the testing carried out. These are summarised below.

Matters reported:

- Our work identified one claim which was misclassified as a Non-HRA Rent Rebate case, which was actually a Rent Allowance case. There was no impact on the subsidy claimed by the Council from this error.
- Our testing identified one error where the incorrect tariff income for the claimant's capital was used in the calculation. In this case the error led to an underpayment of benefit which does not impact on the Council's claimed subsidy.
- In six cases the Council did not hold sufficient evidence to enable us to fully complete the required case testing. This is because these cases arise from claims for housing benefit from many years ago and there have been no changes in the claimants circumstances which would require the Council to obtain updated information.
- Our testing identified one case where the incorrect rent was used in the calculation of benefit, which led to an overpayment of £440.
- Applying the HBAP guidance we extrapolated the impact of the errors outlined above, and this extrapolation increased the amount of overpayments reported by Council by £138,332.

Recommendations:

The Council should ensure that it has retained sufficient evidence to satisfy itself that all of its ongoing housing benefit cases are supported by accurate up to date claimant information as required by the housing benefit regulations.

1. AUDIT PROGRESS

Mazars response to the COVID-19 pandemic

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us.

Ensuring resilience and maintaining the level and quality of client service

- Beyond protecting the welfare of our clients and people, Mazars' first priority is to continue to deliver on our business commitments. As part of our existing contingency planning, we have implemented systems and procedures to ensure continuity and to minimise any disruption.
- Our teams have full access to remote working technology with secure access to their applications, tools and data, wherever they are, and agile working processes are well-established across the firm.
- In a shifting environment, we will continue to adapt our approach to best navigate the uncertain situation while keeping our people and our clients front of mind.
- All partners and staff are working remotely, and our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients, deliver on our commitments, and provide continuity and support at the time it's most needed.

Mazars' external website contains further details of its response to the emerging situation, along with regular economic briefings. <https://www.mazars.co.uk/>

Responding to changes – working with Rossendale BC

All Mazars' staff moved to remote working from the 16th 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 team 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 will put in place arrangements to allow this; for example, regular video conference calls, a shared site for secure transfer of data and keeping a queries log. The key difference is we will not, subject to any changes, have a physical on-site presence. We will maintain communication via e-mail, and regular telephone and video conferencing calls.

2. SUMMARY OF NATIONAL PUBLICATIONS

This section of our report contains national publications which may be of interest to Members, 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
Financial Reporting Council and other regulators		
1.	Statement in respect of current situation	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
2.	CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, 30 April 2020	This is technical guidance for those preparing financial statements.
National Audit Office (NAO)		
3.	Overview of the UK government's response to the COVID-19 pandemic, 21 May 2020	NAO's first publication considering the Government response to COVID-19.
4.	Code of Audit Practice	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit year and beyond.
Public Sector Audit Appointments (PSAA)		
5.	PSAA Publishes Findings of Audit Survey, 7 May 2020	PSAA client survey. We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.
6.	Independent analysis of the outcomes of electors' objections, 15 April 2020	Analysis of objections.
7.	News release: Q&As, 9 April 2020	PSAA seeks to answer questions raised in the 2020/21 scale fee process.
8.	2020/21 audit fee scale, 31 March 2020	Scale fees set for 2020/21 at same level as 2019/20, but PSAA indicates likely upward pressure on audit fees for both years.
9.	Independent review of the sustainability of the local government audit market, 4 March 2020	PSAA publishes an independent review.
Local Government Association (LGA)		
10.	Key questions and issues for finance portfolio holders during the COVID-19 pandemic, 14 May 2020	The paper includes considerations around the financial impact of COVID-19.

2. NATIONAL PUBLICATIONS

1. Statement on Covid-19, *Financial Reporting Council and other Regulators*, March 2020

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>

2. CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, *Chartered Institute of Public Finance and Accountancy*, 30 April 2020

This is technical guidance for those preparing financial statements. It covers emerging or urgent accounting issues. The bulletin for the 2019/20 financial statements includes guidance on accounting for issues relating to the COVID-19 pandemic.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

3. Overview of the UK government’s response to the COVID-19 pandemic, *National Audit Office*, 21 May 2020

Significant outbreaks of disease are among the greatest risks faced by any society, threatening lives and causing significant disruption to public services and the economy. The scale and nature of the current COVID-19 pandemic and government’s response is unprecedented in recent history.

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.

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

2. NATIONAL PUBLICATIONS

4. Code of Audit Practice, *National Audit Office*, March 2020

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies. Schedule 6 of the Act extends this requirement to include NHS Foundation Trusts.

Local auditors must comply with the Code of Audit Practice. The Code must be reviewed at least every five years, so the Code that applies will depend on the financial year being audited.

The final draft of the latest Code has now been approved by Parliament and will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. The NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). NAO plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

We will brief the Committee on changes as more guidance emerges over the year. Key messages from the new Code are summarised below:

Audit of the financial statements

Auditors must still comply with underlying auditing standards.

Value for money arrangements

- Removal of 'except for' and 'adverse' conclusions.
- Work based around 3 reporting criteria:
 - Financial sustainability
 - Governance
 - Improving the 3Es – economy, efficiency and effectiveness
- Auditors must report when they are not satisfied that arrangements are in place. Where weaknesses are identified, recommendations are expected at any time of the audit.

Auditor reporting

- Auditor's Annual Report introduced:
 - Replaces Annual Audit Letter
 - Includes enhanced commentary against each of the specified VFM reporting criteria
 - To be issued in line with the audit report on the financial statements

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

2. NATIONAL PUBLICATIONS

5. PSAA Publishes Findings of Audit Survey, *Public Sector Audit Appointments*, 7 May 2020

PSAA has published the findings of a survey of audited bodies' feedback on their audits of 2018/19 accounts.

In the past, surveys have been undertaken by the audit firms themselves and have sought the responses of client Chief Finance Officers (CFOs) to a relatively small number of high level questions.

This year, coinciding with the first audits under Appointing Person arrangements, PSAA has introduced a new approach which incorporates a number of important changes.

To assure independence and confidentiality, it has commissioned the LGA's Research & Information team to administer the survey centrally. The views of both CFOs and Audit Committee Chairs have been sought recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. A longer list of survey questions has also been developed to probe more deeply into respondents' experience of different aspects of the audit and the auditor's performance.

PSAA hopes that audited bodies will find the survey results interesting and helpful in terms of stimulating discussion about their audit, identifying areas in which it went well or might have been improved. PSAA is encouraged by the volume of data which its new survey has generated and the opportunity it provides to identify good practice and/or discuss specific areas for improvement with individual audit firms.

We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.

<https://www.psa.co.uk/2020/05/psaa-publishes-findings-of-audit-survey/>

6. Independent analysis of the outcomes of electors' objections, *Public Sector Audit Appointments*, 15 April 2020

A unique element of the local government accountability framework is the long-held rights of local electors to inspect accounts and related documents, and to object to auditors about issues of concern. In recent times electors have been able to access far more data and information than when the right to object was originally enacted, because of developments such as transparency reporting and the Freedom of Information Act.

Publicly available information about objections and their outcomes is limited. The work on them is often mainly confidential correspondence between the auditor, the objector and the local body with the outcome reported to the local body. Although the auditor's decision and detailed statement of reasons is sometimes reported in the public domain, this is not always the case. To help address that gap PSAA has commissioned an independent analysis of the outcomes of objections.

<https://www.psa.co.uk/2020/04/news-item-independent-analysis-of-the-outcomes-of-electors-objections/>

7. News release: Q&As, *Public Sector Audit Appointments*, 9 April 2020

PSAA consulted on the 2020/21 scale fees earlier this year and published the 2020/21 scale fees on 31 March 2020. Not surprisingly in these turbulent times for audit the consultation responses contained many questions. Today PSAA have published a 'Q&A', setting out our answers to them.

<https://www.psa.co.uk/2020/04/news-release-qas/>

2. NATIONAL PUBLICATIONS

8. 2020/21 audit fee scale, *Public Sector Audit Appointments*, 31 March 2020

The consultation set out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:

- issues which have given rise to additional audit work in relation to the 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews being undertaken and referred to in this progress report (see item 7 above); and
- the introduction of the new NAO Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.

In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.

The expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits, with a specific aim also to look ahead to identify any implications for 2020/21. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process.

Link to the PSAA consultation is set out below:

<https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

PSAA published its scale fees for 2020/21 on 31 March 2021, and concluded that:

"In current circumstances we do not have sufficient reliable information that would enable us to adjust the scale of fees for 2020/21, and so have maintained the scale fee at the level set for 2019/20 before audit work had started. In practice we recognise that in the event, with so much turbulence and change in the environment, additional fees variations are likely to arise for many bodies."

<https://www.psa.co.uk/audit-fees/2020-21-audit-fee-scale/>

2. NATIONAL PUBLICATIONS

9. Independent review of the sustainability of the local government audit market, *Public Sector Audit Appointments*, 4 March 2020

PSAA has recently commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard (TR).

The TR report draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31st July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams.

<https://www.psa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/>

10. Key questions and issues for finance portfolio holders during the COVID-19 pandemic, *Local Government Association*, 14 May 2020

The ongoing COVID-19 pandemic has already had a significant impact on local council finances, the effects of which will continue through the current period of lockdown and beyond. This paper seeks to outline and discuss key strategic issues that elected members, particularly those in finance and wider leadership positions, should consider.

<https://www.local.gov.uk/key-questions-and-issues-finance-portfolio-holders-during-covid-19-pandemic>

CONTACT

Engagement Lead: Mark Dalton

Phone: 0113 394 5316

Mobile: 07795 506766

Email: mark.dalton@mazars.co.uk

Engagement Manager: Amelia Payton

Phone: 0161 238 9308

Mobile: 07823 521012

Email: amelia.payton@mazars.co.uk