

AUDIT & STANDARDS COMMITTEE ADDENDUM

4.00PM, TUESDAY, 10 MARCH 2020

COUNCIL CHAMBER, HOVE TOWN HALL

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ADDENDUM

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60	EXTERNAL AUDIT PROGRESS REPORT AND AUDIT PLAN 2019/20	3 - 46

Subject:		External Audit Progress Report and Audit Plan 2019/20	
Date of Meeting:		10 March 2020	
Report of:		External Audit Director	
Contact:	Name:	Darren Wells (Grant Thornton)	Tel: 01293 554120
	Email:	Darren.J.Wells@uk.gt.com	
Ward(s) affected:		(All Wards);	

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Council Procedure Rule 7, Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that the External Auditors were awaiting final instructions in order to finalise the External Audit Plan for 2019/20.

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 The External Audit Plan 2019/20 sets out how the council's appointed auditor, Grant Thornton, intends to carry out their responsibilities as external auditor for the financial year ending 31 March 2020. The plan covers:
- Identified risks and issues that are expected to impact on the audit;
 - Consideration of materiality;
 - Arrangements for reviewing Value for Money;
 - The anticipated audit fees;
 - Assurance regarding the auditor's independence.
- 1.2 The work plan is designed to provide the council with:
- An audit opinion on whether the council's financial statements give a true and fair view of the financial position as at 31 March 2020 and the income and expenditure account for the year then ended; and
 - A statutory conclusion on the council's arrangements to secure economy, efficiency and effectiveness in the use of its resources.
- 2.1 The proposed audit fee for the 2019/20 audit is £146,584 which includes the scale fee notified by the appointing body, Public Sector Auditor Appointments Ltd (PSAA), of £122,084 together with additional fee proposals to cover additional scrutiny and responsibilities as follows:
- **Raising the bar: £8,000**
The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile

of local audit. This will entail increased scoping of the audit and increased sampling of scoped areas.

- **Pensions valuation of net pension liabilities under International Auditing Standard (IAS) 19: £4,000**

Pensions is a key area of focus for the FRC, and we have therefore increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.

- **PPE Valuation work of experts: £10,000**

PPE valuation is a key area of focus for the FRC, and we have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We are also engaging our own audit expert valuer Carter Jonas for major audits to add qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5,000.

- **New standards/developments: £2,500**

We are required to respond within our audit to new accounting standards and we must ensure our audit work in new areas is robust and we advise you appropriately. This year we will both be responding to the introduction of IFRS 16 relating to leases and leased assets.

- 1.3 In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the 5 year contract via a formal rebasing of local authorities' scale fees to reflect the increased level of audit work required to enable us to discharge our responsibilities. All external audit fees are subject to moderation by the PSAA.
- 1.4 The report summarises the scope of the audit and the planned approach to reviewing assessed risks.
- 1.5 The report also includes our standard progress report and sector update for the committee's information.

2. RECOMMENDATIONS:

That the Audit & Standards Committee:

- 2.1 Considers and notifies the external auditor as to whether or not there are any other matters which it considers may impact on the planned audit.
- 2.2 Notes the External Audit Plan 2019/20.
- 2.3 Note the Progress Report and Sector Update.

3. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 3.1 The planned audit fee for the 2019/20 audit is £146,584 which includes the scale fee notified by the appointing body, Public Sector Auditor Appointments Ltd (PSAA), of £122,084 together with additional fees of £24,500 as set out in the report. The budget includes contingency provision for additional testing and scrutiny together with provision for separate audits including Teachers' Pensions and Housing Benefit Subsidy Claims. It is anticipated that the additional fee can be managed within the overall budget including contingency, however, this is may be dependent on the price negotiated for separate audits.

Finance Officer Consulted: Nigel Manvell

Date: 03/03/20

Legal Implications:

- 3.2 The Accounts and Audit Regulations 2015, made under the Local Audit and Accountability Act 2014, provide a process whereby the council's statement of accounts in each year must be approved by Members. The council's Constitution delegates responsibility for that function to the Audit & Standards Committee.
- 3.3 The council's appointed external auditors (Grant Thornton) are required to give assurance that the council's accounts are free from material misstatement and to report significant matters arising from the audit. The auditor will present their findings to this Committee through an Audit Results Report (ARR) in accordance with the statutory timetable.

Lawyer Consulted:

Victoria Simpson

Date: 03/03/20

Equalities Implications:

- 3.4 There are no equalities implications arising directly from this report. Information on the audit of the accounts will, as far as possible, be provided in a manner that meets the needs of those requesting information.

Sustainability Implications:

- 3.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability. The External Audit Plan provides the framework within which independent assurance and opinion is given on the council's financial statements.

SUPPORTING DOCUMENTATION:

Appendices:

1. External Audit Plan 2019/20 (Grant Thornton)
2. External Audit Progress Report and Sector Update

Background Documents:

None



External Audit Plan

Year ending 31 March 2020

Brighton and Hove City Council

✓ February 2020



Contents



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Appendix

A. Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Brighton and Hove City Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out [in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Brighton and Hove City Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions;
- Management Override of Controls;
- Valuation of Pension Fund Net Liability;
- Valuation of Property, Plant, and Equipment.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £12.34m (PY £15.54m) for the Authority, which equates to 1.5% of your prior year audited gross operating expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.62m (PY £0.78m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Medium term financial sustainability

Audit logistics

Our interim visit has taken place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £146,584 (PY: £134,084) for the Authority, subject to the Authority meeting our requirements set out on page 13. See a further analysis of proposed increases to the fee on page 15.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For this Authority, at month 9 of 2019-20, the forecast risk position to General fund budget outturn for the year is a £3.4m overspend. Of the £12.2m savings target for 2019-20, £11.2m is on track, but £1m may not be delivered in year. At this point in the year it remains uncertain as to whether the Authority will manage to breakeven as budgeted..

The Authority has set a balanced budget for the 2020-21 year, with priority areas of expenditure being sustainability/environmental improvements through carbon reduction, improving access to affordable housing along with reducing homelessness, and building and sharing community wealth.

With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate retention. The Authority continues to include consideration of this risk and mitigations in its medium term financial planning processes.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements and the form of a deal on trade (if one is reached) remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

IFRS 16 - Leases

The new accounting standard IFRS 16 – Leases comes into force for public sector accounts from 1 April 2020. This removes the current distinction between operating and finance leases. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- Where any actions have been agreed in respect of matters identified through our previous audit work, we will consider progress against these recommendations.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee to meet the increasing expectations of audit quality, is set out further below, and is subject to PSAA agreement.

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Income from fees, charges and other service income	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Brighton and Hove City Council, we have concluded that the greatest risk of material misstatement relates to fees, charges, other service income and income from asset disposals where the timing of income recognition could be via subjective criteria determined by management.</p> <p>We have therefore identified the occurrence and accuracy of fees, charges, other service income and income from asset disposals as a significant risk, which was one of the most significant assessed risks of material misstatement</p> <p>We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.</p>	<p>For all material income streams where we have not rebutted the presumed risk of revenue recognition we will:</p> <ul style="list-style-type: none"> • evaluate your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice; • update our understanding of your system for accounting for income and evaluate the design of the associated controls; • review and sample test income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; • evaluate and challenge significant estimates and the judgments made by management in the recognition of income.
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £2 billion at the 31 March 2019 balance sheet date) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • assess how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • engage an auditor's expert professional valuer (Carter Jonas) to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £251 million in the Authority's balance sheet at the 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

The concept of 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.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority (excluding exceptional items) for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.34m (PY £15.54m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

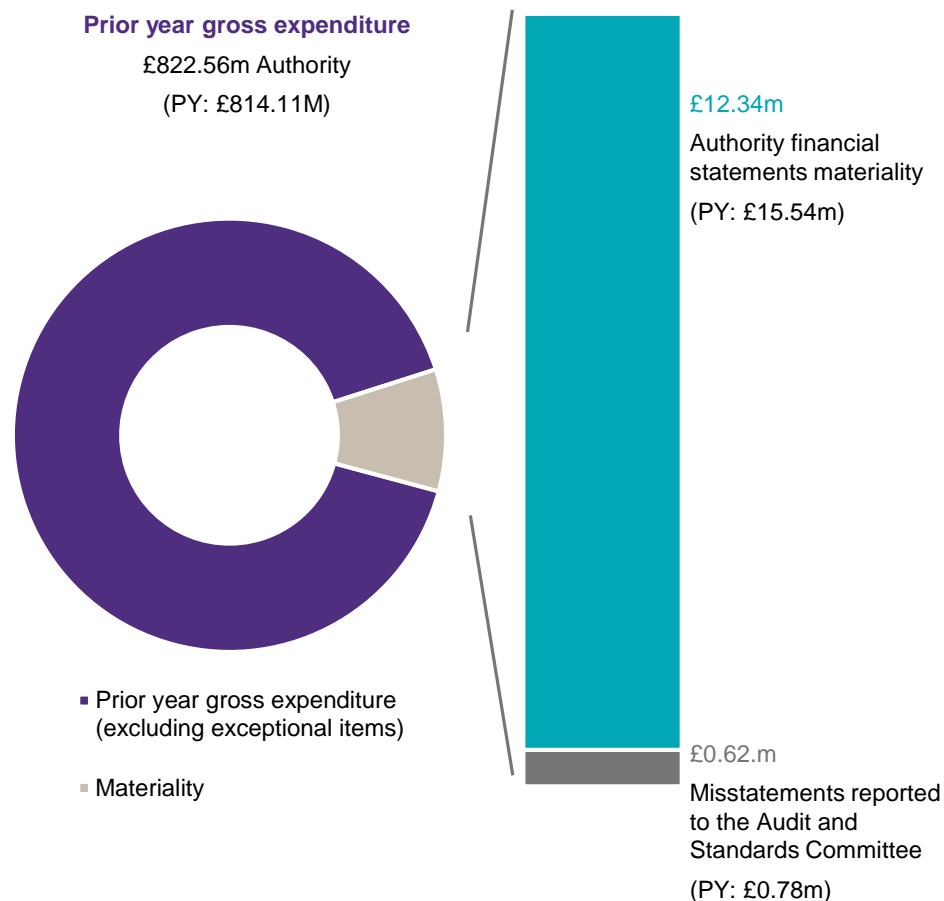
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.62m (PY £0.76m).

We consider materiality for other areas of the accounts which may require a differing level of materiality for reporting. Areas considered were cash and cash equivalents, related party transactions and senior officer remuneration. We considered how users may be affected by misstatements in these areas and concluded that we would report any error over £0.05m, and we will also consider reporting of errors below this if the particular circumstances require it (the error is indicative of fraud).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

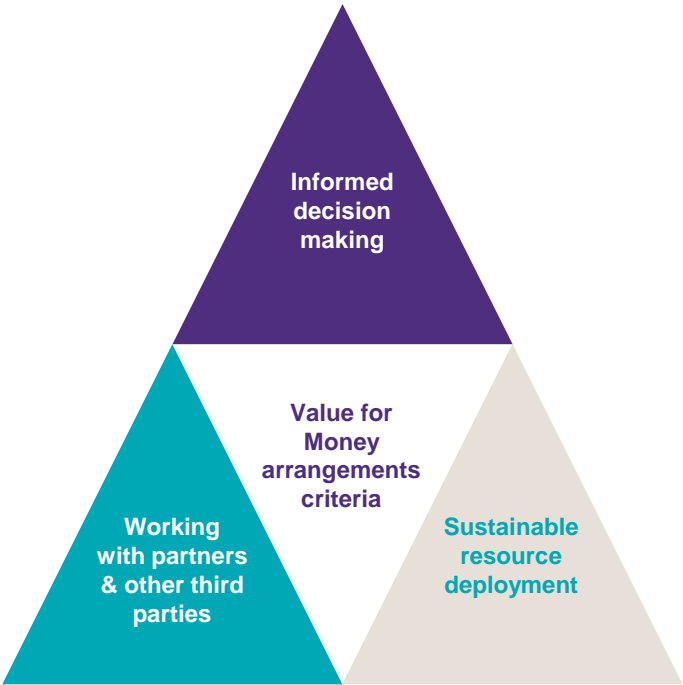
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Medium term financial sustainability

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.

At month 9 of 2019-20, the forecast risk position to General fund budget outturn for the year is a £3.4m overspend. The authority has a £0.8m one-off financial risk safety net contingency fund to mitigate this forecast risk, and there are temporary spending and vacancy controls in place to improve the position. It is uncertain at this point whether the authority will manage to breakeven over the remainder of the year. Of the £12.2m savings target for 2019-20, £11.2m is on track, but £1m may not be delivered in year.

The Authority has set a balanced budget for the 2020-21 year, with priority areas of expenditure being sustainability/environmental improvements through carbon reduction, improving access to affordable housing along with reducing homelessness, and building and sharing community wealth. The budget allocates a total of more than £900m, and includes an increase of the council's element of council tax of 3.99% (including a 1.99% adult social care precept element) to allow income to be sustained at a level which supports the Councils Corporate Plan ambitions.

The budget includes a budget gap which the Authority is addressing with savings proposals of £9.7m. Achievement of savings plans is inherently uncertain and risk and this could put overall budget achievement in doubt. With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate (continued on next page)

7. Value for Money arrangements (continued)



Medium term financial sustainability (risk continued)

retention leading to ongoing medium term budgetary uncertainty going forwards.

Local Government reserves levels are under increased scrutiny with the high level of uncertainty over funding levels. The authority plans to maintain reserves at a level of General Fund working balance at £9m, representing about 3 weeks of Council Tax revenues.

There is a risk that the Council fails to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019-20 and beyond as a result of financial pressures.

To address this risk we will

- review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes;
- discuss your plans and outcomes with management, as well as reviewing how finances were reported to Councillors;
- we will assess how management have assessed the adequacy of reserves levels in the context of risk and future plans;
- we will review the savings plans going forward, assessing savings achievements so far and challenging the robustness of underlying plans for savings totals identified in medium term financial planning documents.

Other potential VFM risks

Note that there are other potential risks which we have considered in our risk assessment processes for VFM, and we have concluded that they are not considered to be significant risks for the authority in 2019-20. These include:

- Ongoing increases in demand for health and social care, and the challenge of working in regional partnerships to maintain services and control costs;
- Significant capital developments, and ensuring the benefits that were envisaged in original plans are realised for residents and stakeholders.

We will continue to keep a watching brief on these areas of risk as we reach our fieldwork stage, and we will discuss these issues with key officers and review key documents available which contain details of the councils plans in these areas to make a continuing assessment of the level of risk and how the authority has put in place reasonable mitigations.

8. Audit logistics & team



Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chair and the Chief Executive and Board Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Board Members and the Policy and Resources Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.

Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Policy and Resources Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Tom Pattison, Audit Incharge

Tom will lead the onsite team and will be the day to day contact for the audit. Tom will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Tom will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£158,550	£134,084	£146,584*
Total audit fees (excluding VAT)	£158,550	£134,084	£146,584

*Analysis provided on page 15.

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	122,084	
Raising the bar	8,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping of the audit and increased sampling of scoped areas.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	4,000	Pensions is a key area of focus for the FRC, and we have therefore increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	10,000	PPE valuation is a key area of focus for the FRC, and we have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We are also engaging our own audit expert valuer Carter Jonas for major audits to add qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5000.
New standards/developments	2,500	We are required to respond within our audit to new accounting standards and we must ensure our audit work in new areas is robust and we advise you appropriately. This year we will both be responding to the introduction of IFRS16 relating to leases and leased assets.
Revised scale fee	146,584	

10. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Capital Receipts Grant Claim	2,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £146,584 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Housing Benefits Grant Claim	17,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,000 in comparison to the total fee for the audit of £146,584 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Teachers Pensions submission	3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £146,584 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Chief Finance Officer. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



Audit Progress Report and Sector Update

Brighton and Hove City Council
Year ending 31 March 2020

March 2020



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Introduction



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This paper provides the Audit and Standards 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 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 March 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in November, and we began our interim audit in February 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The results of our work to date are included in this report.

We have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by July 2020.

Value for Money

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 are 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 July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 12 for more details.

Progress at March 2020 (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. The certification work for the 2018/19 claim was completed during September to November 2019, and certified in advance of the 30 November deadline.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2018/19 claim was completed during September to November 2019, and certified in advance of the 30 November deadline.

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2018/19 return was completed January 2020, and certified in advance of the 7 February 2020 deadline.

Meetings

We met with Finance Officers in January as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in December to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We invite your officers to attend our Financial Reporting Workshop each year, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Standards Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	March 2020	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	<p>We are performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>This is to confirm that IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We are completing our detailed testing on journal transactions recorded for the first 9 months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified so far that we wish to highlight for your attention.</p>	Our work has not identified any issues so far, though the testing is partially complete at the date of this update report, and we will need to complete testing on the journal entries for the remaining part of the year at the year-end fieldwork stage.
Early audit work	<p>We have so far:</p> <ul style="list-style-type: none"> - completed early substantive testing of the first 9 months operating expenditure (including schools expenditure), other fees and charges revenues and PPE additions and disposals - started our substantive analytical review testing of employee remuneration expenditure - started our work around the land and buildings valuation, including obtaining instructions and information provided to professional valuers and engaging with our own auditor's expert professional valuer to provide additional specialist expertise - updated our file information around investments, borrowing and bank accounts to ensure efficient work obtaining confirmations at the year end. 	Our work has not identified any issues so far. We will need to complete testing on remaining part of the year at the year-end fieldwork stage.

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:

Public Sector

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

.”

National Audit Office – Code of Audit Practice

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.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

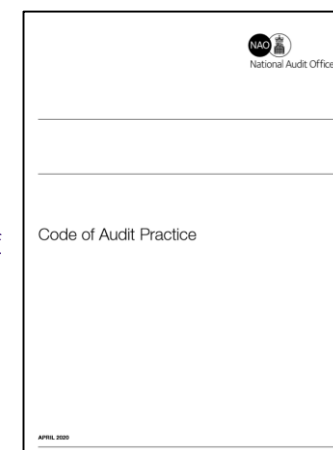
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

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



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

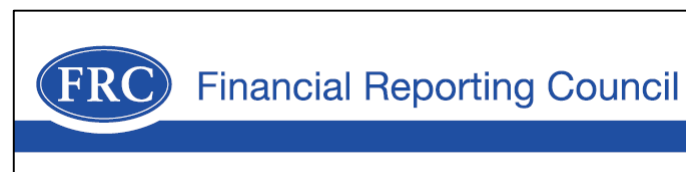
The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages **XX** for more information on this topic.



Financial Reporting

Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of May?



Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to '*disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted*'. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>

Financial Reporting



Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented "the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

Financial Resilience

Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?

