

Annual Audit Letter

Derbyshire Dales District Council

Year ending 31 March 2020





Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire Dales District Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 2 December 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
-------------------------------------	--------------------

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. The report included an emphasis of matter paragraph in relation to material uncertainties in the valuation of the Council's land and buildings and the Council's share of pension fund property assets.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Resources Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of gross revenue expenditure at the surplus/deficit on provision of services	£675,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£20,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - senior officers remuneration - officers earnings bandings - members allowances	£5,000 One banding £45,000



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Resources Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work including:</p> <ul style="list-style-type: none"> documenting our understanding of the processes and controls in place to mitigate the risks identified, and walking through those processes and controls to confirm our understanding; testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; reviewing the calculation of management's material accruals, estimates and provisions for evidence of management bias; evaluating the business rationale for any significant unusual transactions; understanding the oversight given by those charged with governance of the management processes over fraud; sampling accruals and provisions based on established testing thresholds; and reviewing material aspects of capital expenditure on property plant and equipment to check it meets the relevant accounting requirements to be capitalised. 	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Property, Plant and Equipment (PPE) Valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council’s holding of property, plant and equipment. Although the Council uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of property, plant and equipment due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of property, plant and equipment to be an area of significant risk.</p>	<p>In relation to the valuation of property, plant and equipment, investment properties and assets held for sale we:</p> <ul style="list-style-type: none"> critically assessed the Council’s valuer’s scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; considered whether the overall revaluation methodologies used by the Council’s valuer are in line with industry practice, the CIPFA Code of Practice and the Council’s accounting policies; assessed whether valuation movements are in line with market expectations by using the third party indices provided by Gerald Eve to provide information on regional valuation trends; critically assessed the treatment of the upward and downward revaluations in the Council’s financial statements with regards to the requirements of the CIPFA Code of Practice; and critically assessed the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council’s valuer. 	<p>At the outset of the COVID-19 outbreak, an expectation was raised that valuers were likely to conclude that a “material uncertainty” over the valuation of land and buildings existed at the balance sheet date.</p> <p>The Council’s valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation report concluded that, due the impact of COVID-19 on the property market, there is “material uncertainty” over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts. In line with normal practice, we included reference to this disclosure as an ‘emphasis of matter’ in our audit report.</p> <p>The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p> <p>There were no other matters that we need to draw to Members’ attention.</p>
	<p>We also considered the potential impact of the COVID-19 pandemic on the Council’s asset valuations and the adequacy of the disclosures in the financial statements, specifically those relating to the material uncertainty applied by your valuer to the valuations.</p>	



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>In relation to the valuation of the Council’s defined benefit pension liability we:</p> <ul style="list-style-type: none"> • reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office; • agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council’s financial statements; • critically assessed the competency, objectivity and independence of the Derbyshire Pension Fund’s Actuary, Hymans LLP; • liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and • performed a walkthrough of payroll transactions at the Council to understand how pension contributions are deducted and paid to the Pension Fund by the Council. 	<p>The pension fund disclosed a “material valuation uncertainty” in relation to the valuation of the Pension Fund’s property investments, arising from the potential impact of covid-19 on values. This was disclosed in the final version of the financial statements. We, in line with normal practice, included reference to this disclosure as an ‘emphasis of matter’ in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p> <p>There were no other material matters arising that were required to be brought to the attention of Members.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified two relatively low priority recommendations:

Controls in place in regard to the accuracy of remuneration information

During our testing we identified that a car lump sum allowance was shown as a 'benefit in kind' and not in 'Salary, fees and allowances'.

Potential effects

Risk of error in relation to the disclosure made.

Recommendation

Management should review and strengthen its controls relating to the preparation of the remuneration note.

Management response

Accepted.

Controls in place in regard to the preparation of the leases note

During our testing we concluded there was some residual prior year information left in the spreadsheet used to calculate the leases note in error, this required a £634k reduction to the leases note which management has actioned.

Potential effects

Risk of error in relation to the disclosure made.

Recommendation

Management should review and strengthen its controls relating to the preparation of the leases note.

Management response

Accepted.



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

We identified one recurring issue from prior years:

Controls in place in regard to the declaration of interests

The previous auditor's 2017/18 testing of declaration of interests compared the declarations made by councillors to the records on Companies House and noted that 3 councillors had not declared all interests. Moreover, no declaration form had been completed by 4 councillors for the year 2017/18.

Potential effects

There was a potential risk that a conflict of interest was not appropriately declared.

2018/19 and 2019/20 updates

Our 2018/19 testing of declaration of interests identified 4 instances where declarations of interests were not received by the Council after several reminders to the Members. Our 2019/20 testing of declaration of interests identified 5 instances where declarations of interests were not received by the Council after several reminders to the Members.

Management response

Accepted.

Update

Before issuing our audit opinion, we ensured that we identified alternative sources of assurance to ensure there were no undeclared conflicts of interests / undisclosed related party transactions, for those Members where a declaration form was not returned.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
----------------------------	--------------------

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Governance and Resources Committee. We did not identify any concerns regarding data quality or the decision-making process.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council’s arrangements:</p> <ul style="list-style-type: none"> a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance; b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and d) Managing risks effectively and maintaining a sound system of internal control. 	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services and a balanced medium term financial strategy is in place up to 2024/25 provided recurrent savings of £0.5m can be achieved.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council’s arrangements:</p> <ul style="list-style-type: none"> a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; b) Managing and utilising assets effectively to support the delivery of strategic priorities; and c) Planning, organising and developing the workforce effectively to deliver strategic priorities. 	Yes
Working with partners and other third parties	<p>The Council has consulted with local people with a view to establishing a joint venture with a private company to further its corporate aims for affordable housing, employment and regeneration. This demonstrates the Council’s commitment to increase collaboration and build partnership arrangements to achieve improvements</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council’s arrangements:</p> <ul style="list-style-type: none"> a) Working with third parties effectively to deliver strategic priorities; b) b) Commissioning services effectively to support the delivery of strategic priorities; and c) c) Procuring supplies and services effectively to support the delivery of strategic priorities. 	Yes



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>Achievement of savings and income generation targets – At the planning stage of our audit we recognised that the continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2019/20. During 2018/19 several reviews were undertaken generating savings for the Council. The savings identified were removed from the 2018/19 base budget to produce the 2019/20 budget. The Council approved a balanced 2019/20 budget. The budget included the required S.151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves, but acknowledged the risks around the delivery and timing of savings initiatives and the need to address medium term budget shortfalls from 2020/21 onwards.</p> <p>The Medium Term Financial Plan (MTFP) currently outlines a requirement to identify further ongoing savings (or additional income) of £0.5m by 2024/25, but the Council has recognised that this is likely to be adversely impacted by cost pressures associated with Covid-19. In mitigation the Council is holding reserves to allow a strategic response to emerging budgetary shortfalls such as those associated with the implications of Covid-19 which remain uncertain.</p> <p>There will be significant changes in local government finances over the next few years, which will culminate in a major change in the way local government is financed from 2021/22 onwards. These include the implications of the Comprehensive Spending Review, the Fair Funding Review and the introduction a new system for business rates.</p> <p>Delays in the delivery of these initiatives have made it difficult for the Council to plan over the medium term. As a result, the need for savings (or income generation), as well as the need to contain cost pressures such as those associated with Covid-19, will continue to have a significant impact on the Council’s financial resilience, and a prudent approach will be needed until the medium term funding position is clarified.</p> <p>We need to consider the progress made against the budget and plans and update our assessment of this risk area before forming our final VFM conclusion.</p>	<p>The outturn position for 2019/20 shows that the General Fund balance reduced by £161K from £2.161m to £2m and earmarked reserves increased from £13.985m to £17.664m, the combined affect is an increase of £3.5m in the Council’s reserves. These reserves will help the council to manage the cost pressures associated with Covid-19. We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2019/20 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council’s arrangements for developing and delivering its MTFP and for working in partnership.</p>	<p>We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 2 December 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance and Resources Committee in January 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

Following completion of the audit, we have revisited the fees for 2019/20. In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	29,487	29,487
Recurring increases in the base audit fee arising from regulatory pressures		5,910
One-off fee increases for 2019/20 specific issues		4,192
Total Audit Fees	29,487	39,589

All fees are subject to VAT

Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£2,069
Additional work on pensions	£1,773
Additional work on review of journals	£1,182
Additional work in relation to the consideration of going concern	£886
Total additional fee for 2019/20 (recurring in future years)	£5,910



5. OUR FEES

Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures in relation to Material Valuation Uncertainty of the Council's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£1,626
Additional planning procedures in relation to issues raised relating to the Covid-19 pandemic, and related areas of audit review including financial instruments	£1,203
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£821
Additional procedures to consider the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities	£542
Total additional fee for 2019/20 (not recurring)	£4,192

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

We have been engaged to undertake the following audit-related assurance services in relation to the 2019/20 financial year.

Area of work	2019/20 proposed fee	2019/20 final fee
Certification of Housing Benefit Subsidy Claim (work underway; this year's deadline has been extended due to the pandemic)	£5,500	£5,500 *

* Subject to completion



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users.

Key challenges faced by the Council include:

- generating the savings necessary to deliver the medium term financial strategy;
- responding to the demand and funding pressures faced by the Council;
- maintaining available reserves to support the budget, and support the Council's future plans; and
- addressing future uncertainties around the funding position as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system.

How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- 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.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings are being considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



CONTACT

Gavin Barker

Director

Phone: 091 383 6300

Mobile: 07896 684 771

Email: gavin.barker@mazars.co.uk

John Pressley

Manager

Mobile: 07909 980 880

Email: john.pressley@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws

The contents of this document are confidential and not for distribution to anyone other than the recipients. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP