

Audit Progress Report

Trafford Council

July 2020





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Accounts and Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes in section 2 a summary of technical / emerging issues within the sector that committee members may find useful.

Ensuring resilience and maintaining the level and quality of client service

Since the Committee last met the impact of the Covid-19 pandemic has changed our environment in a way not seen before. Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us.

On 17 March 2020, following Government announcements, Mazars made the decision to close its offices and require all staff to work from home. The challenges this has brought are significant and still being felt.

Beyond protecting the welfare of our clients and people, Mazars' first priority is to continue to deliver on our business commitments. As part of our existing contingency planning, we have implemented systems and procedures to ensure continuity and to minimise any disruption. In a shifting environment, we will continue to adapt our approach to best navigate the uncertain situation while keeping our people and our clients front of mind.

Our teams have full access to remote working technology with secure access to their applications, tools and data, wherever they are, and agile working processes are well-established across the firm. All partners and staff are working remotely, and our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients, deliver on our commitments, and provide continuity and support at the time it's most needed.

Mazars' external website contains further details of its response to the emerging situation, along with daily economic briefings.

Responding to the changes – working with the Council

We are committed to supporting the Council as best we can throughout the current period, recognising first and foremost the need to be flexible as the current environment changes, but also the significant pressures on the Council's finance team. We have continued to maintain open communication throughout the period.

We are able to carry out the audit remotely and have put in place arrangements to allow this, such as routine regular update meetings, use of the our Huddle file sharing site for secure transfer of data and keeping query logs. The key difference is we will not, until further notice, have a physical on-site presence. We will however maintain communication via regular conference and video calls.

1. AUDIT PROGRESS

Financial Reporting workshop

Mazars is proud to be one of the leading providers of external audit to Local Government. Reflecting our sector-leading position, we held our 2019/20 Financial Reporting workshop in Stockport in February 2020, and the Council finance officers attended and contributed to the discussions.

These workshops are designed to provide Council finance staff with our understanding of the key changes and challenges in the financial reporting requirements for the year. They enable our national Local Government technical experts to reflect their experiences and their discussions with CIPFA and the wider accounting profession, and provide a good networking and discussion opportunity for Councils.

Audit progress

With regards to our external audit of the Council, since the last Committee meeting we have updated our documentation and understanding of the payroll system and also the social care expenditure system, for which we also completed walkthrough testing. Our walkthrough testing of the payroll system will be completed as part of our final accounts audit.

We also completed:

- sample testing of non-pay expenditure transactions to January 2020 and tested fees and charges and grant income to December 2019.
- some testing of the Council's Property, Plant & Equipment and Investment property additions to February 2020.
- sample testing of housing benefits claims to December 2019 and testing system parameters for 2019/20.
- agreement of the 2019/20 opening balances to the Council's ledger.
- payroll trend analysis and some payroll testing to January 2020.

We also met with the Corporate Director Finance and Systems, senior members of her team and the Monitoring Officer in April and June and have maintained contact with the Finance team to ensure that we remain up to speed with the Council's response to the challenges and its plans regarding financial reporting.

We revised our audit resource plans to ensure that we deliver the external audit of the financial statements in line with the Council's revised plans, as set out below.

- The Council will provide the draft accounts when they were published on the Council website on 16 July 2020.
- The Council's plans are to publish the final signed Financial Statements and AGS by the end of November 2020.
- We will commence our detailed audit of the financial statements on 20 July. Our resource plans are based on completing the audit work in July and August.

We can confirm that the audit is on track to deliver to the revised national timetable and, based on our work to date, there are no matters that we need to bring to the attention of the Committee.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
Public Sector Audit Appointments			
1	Publication of 2020/21 scale of audit fees	PSAA has written to all Councils setting out the next year's external audit fees	6
National Audit Office			
2	New Code of Audit Practice 2020/21	Publication of the Code of Practice that prescribes the focus of the external audit and auditor reporting for five years from 2020/21	7
3	Local authority investment in commercial property	Report on the developments of LA investments in commercial property	7
Ministry of Housing, Communities & Local Government (MHCLG)			
4	Final local government finance settlement: England, 2020 to 2021	Announcement of the finance settlement for 2020/21	8
5	Northamptonshire County Council: fourth commissioners' report	Report from the appointed commissioner	8
Other			
6	Statement on Covid-19, Financial Reporting Council and other Regulators	Statement on the impact of the Covid-19 pandemic on accounting, reporting and auditing	9

2. NATIONAL PUBLICATIONS – PSAA

1. PSAA 2020/21 scale of audit fees, March 2020

PSAA has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies, and wrote to those bodies to notify them of the fee.

The 2020/21 fee scale document sets out the scale of fees for the audit work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements.

PSAA describes in their letter that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. In their letter they conclude that

“we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage. The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit.”

The published scale fee for the Council's 2020/21 audit is unchanged from 2019/20 at £91,008.

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

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

2. New Code of Audit Practice 2020/21, February 2020

The NAO have published their final draft of the Code following the consultation process. The Code has now been laid before Parliament and, subject to Parliamentary approval, will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

Accompanying the Code is a document that sets out the issues the NAO considered as a result of the feedback to Stage 2 of the consultation on the exposure draft of the Code, and highlights the key changes made to the text of the final draft of the Code.

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

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

3. Local authority investment in commercial property, February 2020

In response to substantial falls in funding since 2010/11, local authorities have made reductions in revenue spending on services. Increasingly, authorities have also sought to offset funding reductions by generating new income through a range of strategies. A key component within these responses has been a rapid expansion in the acquisition of commercial property, often funded by borrowing.

The NAO estimates that authorities spent £6.6 billion on purchasing commercial property from 2016/17 to 2018/19 – 14.4 times more than in the preceding three years. This includes an estimated £3.1 billion on acquiring offices; £2.3 billion on retail property, including £759 million on shopping centres or units within them and £957 million on industrial property. The majority of the £6.6 billion was spent by only 49 local authorities, with those authorities accounting for 80% of the spend. Many authorities have borrowed to finance these purchases. The NAO estimates that between 38% and 91% of spending on these purchases across the sector was financed by borrowing in this period.

The report concludes that although there is evidence of authorities mitigating these risks, such as by recruiting specialist staff, undertaking due diligence on their purchases, drawing on external expertise and establishing contingency funds, there was room for improvement in the governance and risk mitigation arrangements of some authorities.

The Ministry of Housing, Communities and Local Government (MHCLG) is responsible for the framework of statutory codes and guidance that set the parameters for local authority borrowing and capital spending. MHCLG has made changes to aspects of the framework in response to the recent increased investment in commercial property. Recent activity has raised questions about the extent to which MHCLG can rely on the present framework to support authorities to make decisions which demonstrate good value for money.

The NAO recommends that MHCLG improves the relevance and quality of data and analysis it has on authorities' acquisition of commercial property to understand more fully any risks and to provide greater assurance that authorities are complying with the framework. It also recommends that the Ministry should review whether the current framework is still achieving its intended aims.

<https://www.nao.org.uk/report/local-authority-investment-in-commercial-property/>

2. NATIONAL PUBLICATIONS – MHCLG

4. Final local government finance settlement: England, 2020 to 2021, February 2020

Following the provisional settlement, the Ministry of Housing, Communities and Local Government published the collection of documents that comprise the final settlement for Local Government.

<https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2020-to-2021>

5. Northamptonshire County Council: fourth commissioners' report, January 2020

MHCLG have published the fourth commissioner's report into Northamptonshire County Council. This report sets out the progress made to stabilise the council's finances, and to strengthen the council's scrutiny and governance processes. The commissioner's work continues to support the setting up of the 2 new shadow authorities from May 2020.

<https://www.gov.uk/government/publications/northamptonshire-county-council-fourth-commissioners-report>

2. NATIONAL PUBLICATIONS – OTHER

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

A joint statement was issued by the Financial Reporting Council, the Financial Conduct Authority and Prudential Regulation Authority in response to the current situation.

The statement sets out that:

“Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly.

Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information”

The statement highlights:

- The likelihood of an increase in the number of modified audit opinions (where there are difficulties in obtaining evidence or other issues);
- Increased going concern assumption considerations and uncertainties; and
- Guidance for companies and auditors.

<https://www.fca.org.uk/news/statements/joint-statement-fca-frc-pra>

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