Annual Audit Letter

Trafford Metropolitan Borough Council

Year ending 31 March 2020

Contents

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor Trafford Metropolitan Borough 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	Our auditor's report issued on 10 March 2021 included our opinion that the financial statements: • 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	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	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, except for in relation to children's social care services that have been assessed as 'inadequate by Ofsted.
Reporting to the group auditor	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.
Statutory reporting	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.

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 investment properties and surplus assets and the Council's share of pension fund property assets.

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 Audit and Governance 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:

		Council	Group
Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure.	£11,320,000	£11,475,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£339,000	£344,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - senior officers remuneration	£5,000	n/a

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 Accounts and Audit 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
Management override of controls 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	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our audit work provided the assurance we sought. There are no issues to bring to your attention.

Our response to significant risks continued

Identified significant risk	Our response	Our findings and conclusions
Valuation of Property, Plant and Equipment (land and buildings including investment properties) The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The valuation of Property, Plant & Equipment and Investment Properties involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to five years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.	In relation to the assets which have been revalued during 2019/20 we have assessed the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and then reviewed the valuation methodology used, including testing the underlying data and challenging the assumptions. We have reviewed the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and considered the robustness of that approach in light of the valuation information reported by the Council's valuers. In addition, we have considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. We employed an external valuations expert to consider the impact of the 'material uncertainty' disclosure. Based on their work, we are satisfied the valuation can still be relied upon. During the course of the audit we obtained up-to-date market data and compared this to the Council's asset valuations. This confirmed the valuations were in line with wider market data. We have tested revaluations and additions to ensure they are correctly reflected in the accounts.	Our audit work provided the assurance we sought. Our sample testing identified a total understatement is £7.3m in relation to PPE and Investment Properties. This was not adjusted in the audited accounts as the amount was not material and will be corrected in future years Our work on the valuations confirmed the Council's valuer's had included a 'Material Valuation Uncertainty' paragraph in their valuation reports due to the impact of COVID-19 pandemic on the real estate market. Through our work we are satisfied this does not mean the valuations cannot be relied upon, only that less certainty can be attached to the valuations than would normally be the case. The Council made appropriate disclosures regarding this in Note 3 to the accounts. Our audit opinion included an 'Emphasis of Matter' paragraph which draws readers' attention to the appropriate disclosures. This does not constitute a modification to our audit opinion.

Our response to significant risks continued

Identified significant risk	Our response	Our findings and conclusions
Valuation of Defined Benefit Pension Liability The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.	How we addressed this risk Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; Liaised with the auditors of the Greater Manchester 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 IAS19 valuation is complete and accurate; Tested payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; 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, 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. In addition our work focused on two issues that emerged through 2020. In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was included in the Council's liability in 2019/20. The proposed remedy indicates that the actuarial estimate of the liability for 2019/20 was likely to be overstating the pension fund liability but not materially. A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. Although the impact of 'Goodwin' is still being clarified the Council's actuary have provided details of the impact on the Council's liability. In both issues, Management has engaged with the Council's actuary and we and Management have reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability. The Council obtained a revised report from the actuary that considered the impact of McCloud and Goodwin and has amended the pension accounting entries and disclosures in the Council's financial statements, as set out on page 18	Our work on the valuation of the Council's Pension Liability has not identified any issue to report to the Committee. However, as highlighted above in relation to the Council's property valuations, the Pension Fund and its auditor have highlighted a "material valuation uncertainty" over the valuation of the Pension Fund's property holding. This is disclosed in the notes to the Council's Accounts and, in line with normal practice, we will include reference to this disclosure as an 'emphasis of matter' in our audit report. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion..

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.

The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported.

We identified three internal control deficiencies, one high priority and 2 low priority.

The control deficiency with high priority i.e. significant in nature and related to the difficulties encountered in obtaining sufficient evidence from the Council's external valuer to support the revaluation for our samples of land & building and investment property assets. We reported similar difficulties last year and again have found that the valuations for some were not clearly documented.

Management has agreed to strengthen arrangements to address the control recommendation during 2020/21. We are content with management's response.

The two low priority internal control recommendation were in relation to in correct disclosures of note 18 and 44. Management has agreed to strengthen review process to address the control recommendations during 2020/21. We are content with management's response.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Qualified

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 that, is 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, except for in relation to children’s social care services that have been assessed as ‘inadequate by Ofsted. Further detail is provided on the following page.

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. We reported that we had identified two significant audit risks. The work we carried out in relation to significant risks is outlined below.

Risk	Commentary	Conclusion
Financial sustainability The Council's medium term financial strategy (MTFS) approved by Council in February 2019, set out the financial challenges it faces, with a cumulative funding gap of £28.5m comprising of £15.7m in 2020/21 and £12.8m in 2021/22. In October 2019 the Executive received the draft revenue budget for 2020/21 and MTFS 2021-23. This estimated a revised funding gap of £13m in 2020/21 and £10.2m in 2021/22, and a forecast gap of £8.5m in 2022/23. The report included proposals for additional funding and new savings and income generation which would reduce the gap to £0.7m in 2020/21, £9.9m in 2021/22 and £5.4m in 2022/23. Financial performance reported to the end of November 2019 was a year-end underspend of £0.65m with forecast overspends on service budgets of £4.2m expected to be offset by a forecast underspend of £4.8m on Council-wide budgets. The budget proposals for 2020/21 and updated MTFS to 2023 were being finalised for submission to Council in February 2020. The continuing challenges the Council faces are not new or unique to Trafford Metropolitan Borough Council, but do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.	To address these risks we have • Review the Council's outturn against the 2019-20 budgeted position • Review the Council's progress in setting a balanced budget for 2020/21 • Review the Council's arrangements for identifying savings and other measures to address the funding gap going forward **Findings** The Council has maintained appropriate arrangements throughout 2019/20 for ensuring financial resilience. The Council set a balanced budget for 2019/20 with a budget gap of £13.44m to be addressed by additional funding of £3.79m, use of reserves of £2.8m and £6.85m of service savings. The Council has maintained sufficient arrangements for monitoring and forecasting the financial position and identifying risks and taking actions to mitigate them. The budget position has been reported bi-monthly to Executive Cabinet during the year setting out the current position and the projected position at the year end, and an overview of pressures, which are clearly articulated. The reports include an overview of the position for each service area and details of actions taken to address them and mitigate risks. The forecast year end outturn has fluctuated over the year from a £1.9m overspend at month 2 to a forecast £3m overspend at month 4 and then a significant reduction to a forecast overspend of £0.3m at month 6. This reduction was mainly due to an increased favourable variance in Council-wide budgets but with continuing spending pressures on service budgets, in particular Adult Services and Children's Services. The forecast year-end position continued to show improvement and the final year end actual was an underspend of £0.298m. Savings of £6.83m were delivered against the target for the year of £6.855m.	We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.

(Continue overleaf)

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

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Risk	Commentary	Conclusion
Financial sustainability	Whilst an overall surplus position was achieved, there remain some significant service pressures, in particular in Adult Services and Children's Services which had year-end overspends of £2.8m and £0.5m respectively. At 31 March 2020, the Council's earmarked reserves totalled £63.2m compared with £53.8m at 31 March 2019. The General Fund was maintained at £7m. The draft revenue budget 2020/21 and Medium Term Financial Strategy 2021 to 2023 were considered by the Executive Cabinet in October 2019. This forecast budget gaps totalling £32m over the 3 year period. Proposals to close the gap were subject to Scrutiny Committee review in November 2019 and considered at two Budget Scrutiny Working Group sessions of Executive Members and Senior officers in December 2019. The Council set its budget for 2020/21 in February 2020 in line with the statutory requirements and approved an updated Medium Term Financial Strategy 2021 to 2023. In setting the budget, the Council took account of the Local Government finance settlement and the impact of pay increases, inflation levels, demand pressures, etc. However the forecast budget gap increased to £42m over the 3 year period, of which £18.5m related to 2020/21. Measures were identified which would balance the budget in 2020/21, but there remained budget gaps of £15m in 21/22 and £5.7m in 22/23. Work was underway to identify savings to close these gaps. However, the COVID-19 pandemic presents a new and significant challenge to the Council's financial sustainability for 2020/21 and future years. Whilst this had a minimal impact on the Council in 2019/20, additional cost pressures and reduced income have led to the need for the Council to reassess its 2020/21 budget and MTFS. This work is now well underway and will continue over the coming months. An initial assessment of the impact of the pandemic was presented to the Executive Cabinet in April 2020 and estimated an overall adverse impact of £37m in 2020/21 and a possible budget gap in 2021/22 of over £20m. (Continue overleaf)	

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

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Risk	Commentary	Conclusion
Financial sustainability	Whilst the Council is currently expecting to manage pressures in 2020/21 to deliver a balanced position for the year, the latest forecast budget gaps reported to the Executive Committee in October 2020 are over £58m over the period 2021 to 2024, almost £16m of which is due to Covid pressures. Proposals have been identified which can reduce the gap to £18m (£4.7m in 2021/22, £5.2m in 2022/23 and £8m in 2023/24). These proposals include the use of earmarked reserves and new savings measures. The Council continues to keep these forecasts and the impact of the continuing pandemic under review. They will be updated as the Government's future funding proposals for local government become clearer. Overall, the Council had appropriate arrangements in place in 2019/20 to monitor and mitigate pressures, particularly in Adult Services and Children's Services. The pandemic is creating further financial pressures and future risks but the Council has appropriate arrangements in place to keep these under review and identify actions to take to manage these pressures. Whilst there is a need to use Council reserves to support services, the Council also recognises that this is not sustainable and is looking to make permanent reductions to the cost base.	

Significant audit risks continued

Risk	Commentary	Conclusion
Ofsted inspection: children's social care services In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators. In May 2019 Ofsted issued a report on its inspection of the Council's Children's Social Care Services. The inspection report concluded that the overall effectiveness of the Council's services for children is inadequate. We are aware the Council has taken a number of steps to tackle the issues raised in the Ofsted inspection. However, there remains a risk the Council's arrangements do not secure the required improvements to this key service or that the improvements are not secured in a timely manner.	To address these risks we have considered the progress made by the Council in response to the Ofsted report including any updated commentary from the regulator. **Findings** In order to address the issues that led to the 'Inadequate' assessment by Ofsted, an Interim Director of Children's Services was appointed and a shadow improvement board was created in June 2019. A Department for Education (DfE) improvement adviser was also appointed to work alongside the Council to support the improvement process. In August 2019, the shadow improvement board became a multi-agency Children's Improvement Board (CIB). The CIB meets regularly. Attendees include Council members and officers and other stakeholders, including NHS partners. Its independent Chair is the DfE Improvement Adviser. A two year improvement plan has been put in place which identifies the actions required to improve children's services in Trafford, with the aim of moving from the 'Inadequate' assessment to 'Good'. Reports receive and matters discussed by the CIB include improvement activity, progress against the improvement plan, the associated risk register and feedback from Ofsted. An appropriate governance framework is in place below the CIB, with workstreams for each area in the Improvement Plan. In January 2020 a proposed three year investment programme for Children's Services was approved by the Executive Cabinet, focussing on early intervention and help to families at risk, to ensure that children are safeguarded at an earlier stage with the aim of avoiding the need for them to be taken into care. (continue overleaf)	The Council's Children's Services were assessed by Ofsted as 'inadequate' overall. Although we have concluded that the Council does not have adequate arrangements in place for these services, we are satisfied that the Council is taking urgent action to address the issues identified.

Significant audit risks continued

Risk	Commentary	Conclusion
Ofsted inspection: children's social care services	A permanent Director of Children's Services (DCS) was appointed at the end of January 2020. Ofsted commenced an interim visit in March 2020 to assess progress but were unable to fully complete it because of the national lockdown and subsequent restrictions during the pandemic. In June, the DfE confirmed their support for Councils to continue to focus on improving services despite the pandemic. This included flexibilities for the duration of the Covid-19 crisis such as Improvement Boards meeting virtually and re-focussing to support management of Covid-19. The timetable for DfE review meetings was also extended. The new DCS has completed the process of putting in place a new leadership team in Children's Services and the three year investment programme is under review to ensure it remains appropriate for future needs. Although Ofsted's planned 3 monthly assessment visits to assess progress were stood down due to Covid-19 crisis, the Council has continued to engage and has received feedback from the DfE. This includes their views on the progress being made, what has gone well and areas of risk going forward. There is also recognition of the risks caused by the current pandemic and associated restrictions that create additional financial and service pressures and future uncertainty.	

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
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, and to carry out certain tests on the data. We submitted this information to the NAO on 12 April 2021

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 Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in March 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£91,008	£119,608

Our final fee reflects the increased work required in respect of the Council's PPE and defined benefit liability valuations as a result of changes in the regulatory environment within which we operate. We have also undertaken additional work in relation to the impact of COVID-19 in respect of property valuations and pensions (material valuation uncertainty), the Council's going concern assessment, and value for money arrangements in respect of the Council's non-compliance with its key decision making process.

Fees for other work

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

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 managers 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 will now be 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

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