

Audit Committee – 27 July 2020

External Audit – Statement of Accounts Audit Progress Report

1. Summary of report

- 1.1 This report provides the Audit Committee with a report on progress in: delivering Grant Thornton’s responsibilities as the Council’s External Auditors; value for money arrangements; and a Covid-19 update for Audit Committees.

2. Recommendations

- 2.1 Audit Committee are recommended to review and note the report.

3. Background

- 3.1 Given the current position with Covid-19 the statutory deadline for the issue of the external audit opinion on the 2019/20 statement of accounts has been extended to 30 November 2020. This report therefore provides an update on progress in delivering this work to date and also a Covid-19 update for Audit Committees.

4. Resource and Legal Consideration

- 4.1 Grant Thornton are the Council’s independent external auditors. Outcomes from their work will assist the Council in maintaining strong governance arrangements.

5. Citizen Impact

- 5.1 None arising directly from this report.

6. Performance and Risk Management issues

- 6.1 None arising directly from this report. The 2019/20 external audit opinion and any recommendations arising from this will be reported to the Audit Committee for consideration.

7. Equality Implications

- 7.1 None directly related to this report.

8. Consultation

- 8.1 Consultation has taken place between internal finance staff and external auditors as the audit work has progressed, however no further formal consultation is required in relation to this report.

9. Background Papers

Internal Audit reports / monitoring information.

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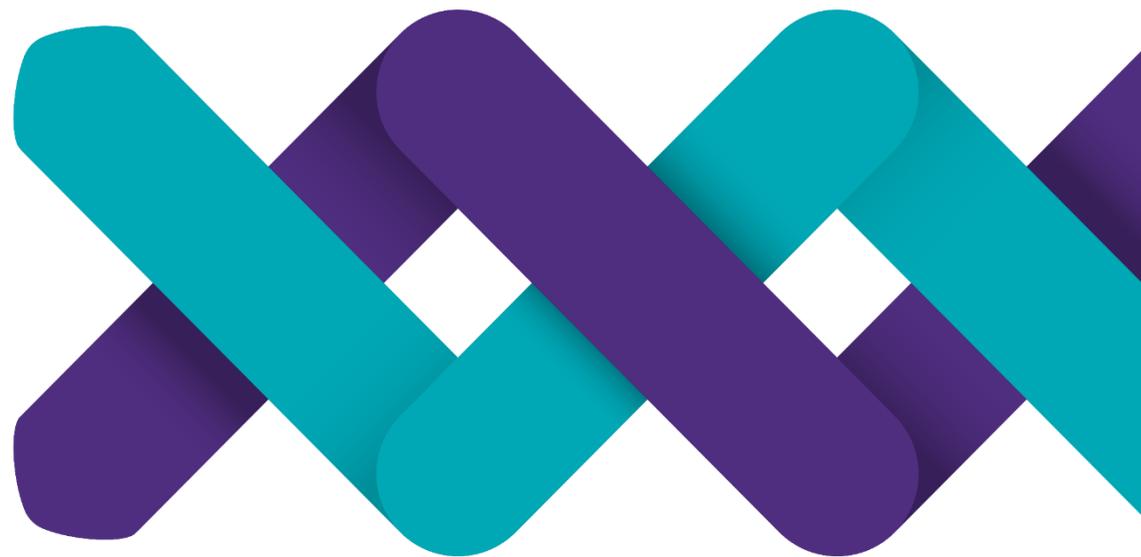
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Audit Progress Report and Sector Update

Walsall Metropolitan Borough Council
Year ending 31 March 2020

27 July 2020



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a briefing on the issues faced by Local Government in relation to Covid 19.

Members of the Audit 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 July 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in December, and we undertook our interim audit in January 2020. We commenced our work on the draft financial statements for 2019/20 in June and this is ongoing. Further details on progress are included within this report

We issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements in February 2020. In addition to the audit risks included in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic.

Our work on this has resulted in an update to our audit plan identifying a new financial statements level significant risk. This has been included in an addendum to our audit plan.

The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

We are continuing to monitor the COVID-19 situation and are discussing with the finance team the impacts this may have on the 2019/20 audit. Given the fast moving events and new policy announcements by government in response to Covid-19 clearly these risks are subject to change. Appendix A gives an overview for the Audit Committee of various scenarios, their potential financial implications, and resources available to deliver them. These issues will be critical over the short to medium term.

Further details of the potential impact on the audit are detailed at appendix A

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2019/20 opinion is 30 November 2020. We are discussing our plan and timetable with officers. Our audit deadline is dependent on the West Midlands Pension Fund being completed in order for us to gain assurance over IAS19.

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 and significant risks can be seen at page 6 of this report. We identified one significant Value for Money Risk – Planning finances effectively to support delivery of strategic priorities and maintain statutory functions – and are currently carrying out our audit work on this.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion in the Auditor Report.

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 2019/20 has started. We have liaised with officers to agree the overall project plan for completing this work.

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 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.	February 2020	Complete
Progress Report We will report to you the findings from our audit to date and our initial value for money risk assessment within our Progress Report.	July 2020	Contained in this report
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	TBC	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	TBC	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	TBC	Not yet due

Value for Money arrangements

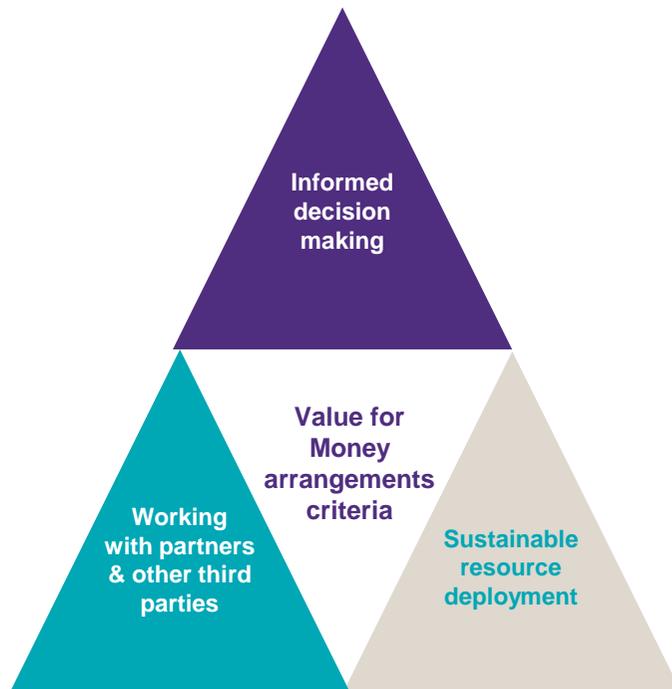
Background to our VFM approach

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.



Sustainable Resource Deployment

Planning finances effectively to support delivery of strategic priorities and maintain statutory functions

The Council has a history of delivering its budgeted expenditure, despite reductions in funding. However this means that it has significant financial challenges over the medium term. For 2019/20 the pre-audit net revenue outturn is £121.08m against a budget of £121.37m, an underspend of £291k. However, both Adult Social Care and Children's Services are particularly stretched with a combined overspend of £1.33m against budget.

The 2019/20 budget included £20.08m of savings, income improvements and efficiencies. £11.35m were achieved. The £8.73m of unachieved savings are included in the 2020/21 budget. Delivery of £5.00m PROUD transformational savings included within the 2019/20 budget was delayed and amended within the 2020/21 budget proposals.

Over the Medium term the Council continues to face similar financial pressures and uncertainties to those experienced by other Local Government bodies. The impact of Covid19 has created further financial uncertainty.

We will review and evaluate the revised Medium Term Financial Plan to see how the budget gap is to be addressed. We will also review the PROUD savings programme and considered whether realistic assumptions have been built into budget plans. A significant value for money risk has been identified in relation to budget delivery and reserves management. Monitoring of delivery of the PROUD programme will be an important part of ensuring the goals set are achieved.

Results of Audit Work as at July 2020

The findings of our audit work to date, and the impact of our findings, 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. 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>	<p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
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	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Review of information technology controls	<p>Our information systems specialist have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls will be observed to ensure they have been implemented in accordance with our documented understanding.</p>	<p>This work is in progress a draft report has been provided to management which highlights any issues found. We are awaiting management responses to these issues.</p>

Results of Audit Work as at July 2020 continued

	Work performed	Conclusions and recommendations
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.
Audit Testing	<p>We have selected samples and received evidence to support the entries for the following areas.</p> <p>Operating Expenditure Capex and Levies Percept's and Levies Grant Receipts Fees and Charges Payroll Revenue Related Parties</p>	Our work is substantially complete in these areas. Our audit work to date has not identified any issues in respect of these areas.
Property, Plant, and Equipment	<p>We have undertaken work on the accuracy and completeness of:</p> <p>Opening balances Additions Disposals Depreciation Heritage Assets</p>	Our work is currently ongoing in this area with valuation including airport and investments still to be completed.
Valuation of pension fund net liability	Our work is still ongoing in relation to the work of the actuary and information provided by the pension fund.	Work in progress

Links

Grant Thornton

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

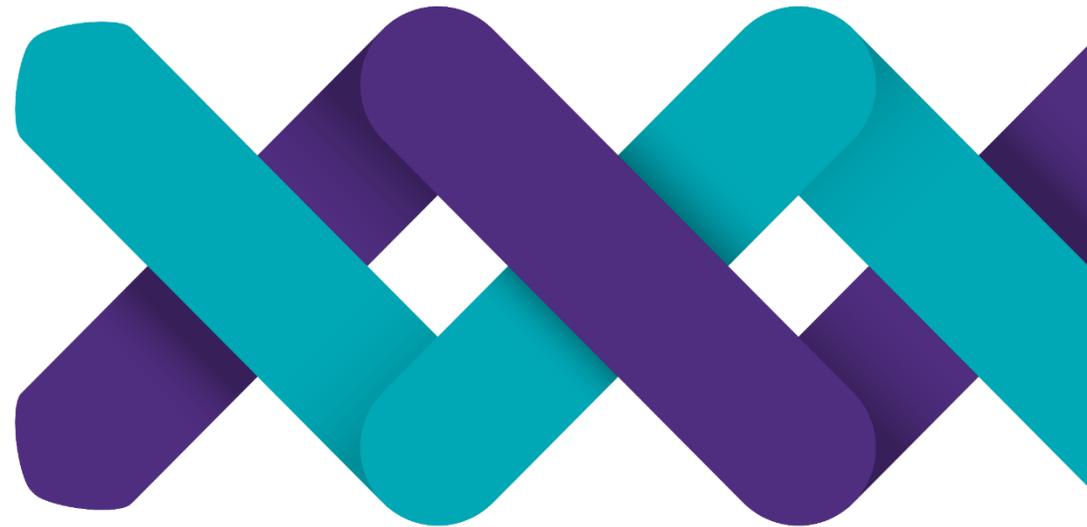
CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



Covid-19 and Local Government

A Grant Thornton briefing for audit committees



Context

Public services, including local government, have been at the forefront of the emergency response to the Coronavirus (COVID-19) pandemic. Very few local government services have not been impacted by COVID-19, as councils have had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and vulnerable citizens. They have also had to redeploy people to new roles and repurpose assets to new functions. For example, by closing leisure centres and repurposing them as temporary mortuaries or food banks.

Prior to COVID-19 local government had to adapt to significant reductions in funding during a period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this high level reduction are much larger reductions in expenditure on specific service lines. In broad terms, councils managed austerity by significantly reducing spending on discretionary services, in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils had to place greater reliance on fees and charges income. They have also had to be innovative in generating new income sources, particularly taking more commercial approach. This commercialisation trend is now changing, however, as authorities seek to balance social outcomes with financial sustainability.

COVID-19 has had a further significant impact on local government finances. This is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to close services, such as leisure centres, and reductions in income from other sources, such as car parking, business rates and council tax; and
- non-delivery of savings plans

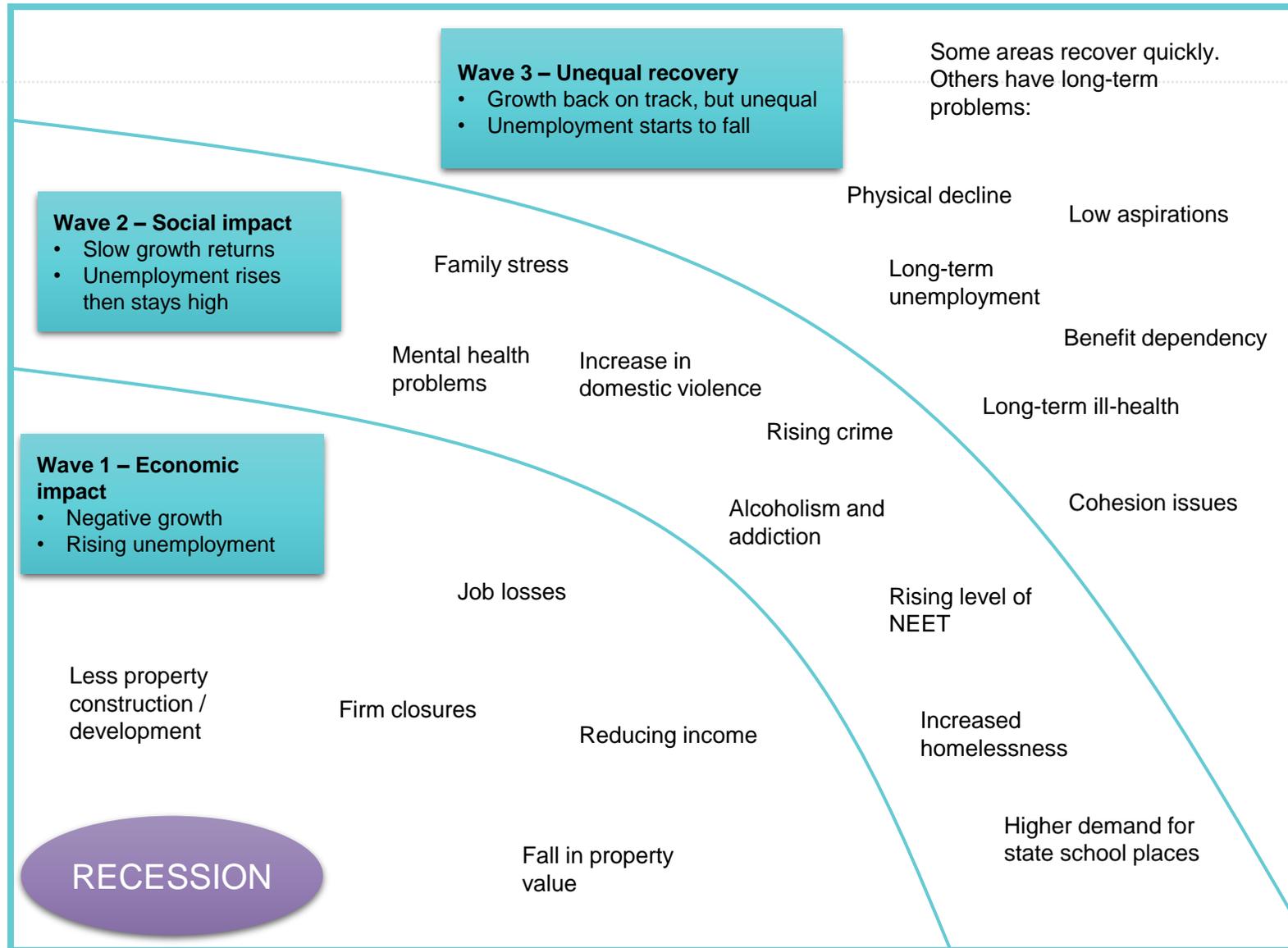
Whilst central government has made significant additional funding contributions to local government, in recognition of the financial consequences of COVID-19, the total funding gap for councils in England is currently estimated to be £6billion by the Local Government Association. The sector is still in the process of determining the longer term financial impact. Tranches of government funding provided so far have generally focussed on alleviating financial pressures created by COVID-19 related to additional council expenditures, so have limited benefit in offsetting lost income, such as that relating to leisure services, car parking income and other fees and charges.

This stark financial context has significant implications for the sector. Particularly as councils start to move from the emergency response stage to the recovery planning stage of COVID-19. The key risks councils will therefore need to consider include:

- how they stand up closed services such as leisure centres, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of COVID-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap.
- exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Given the fast moving events and new policy announcements by government in response to Covid-19 Clearly these risks are subject to change and this is not an exhaustive list. However, understanding these various scenarios, their potential financial implications, and resources available to deliver them will nevertheless be critical over the short to medium term.

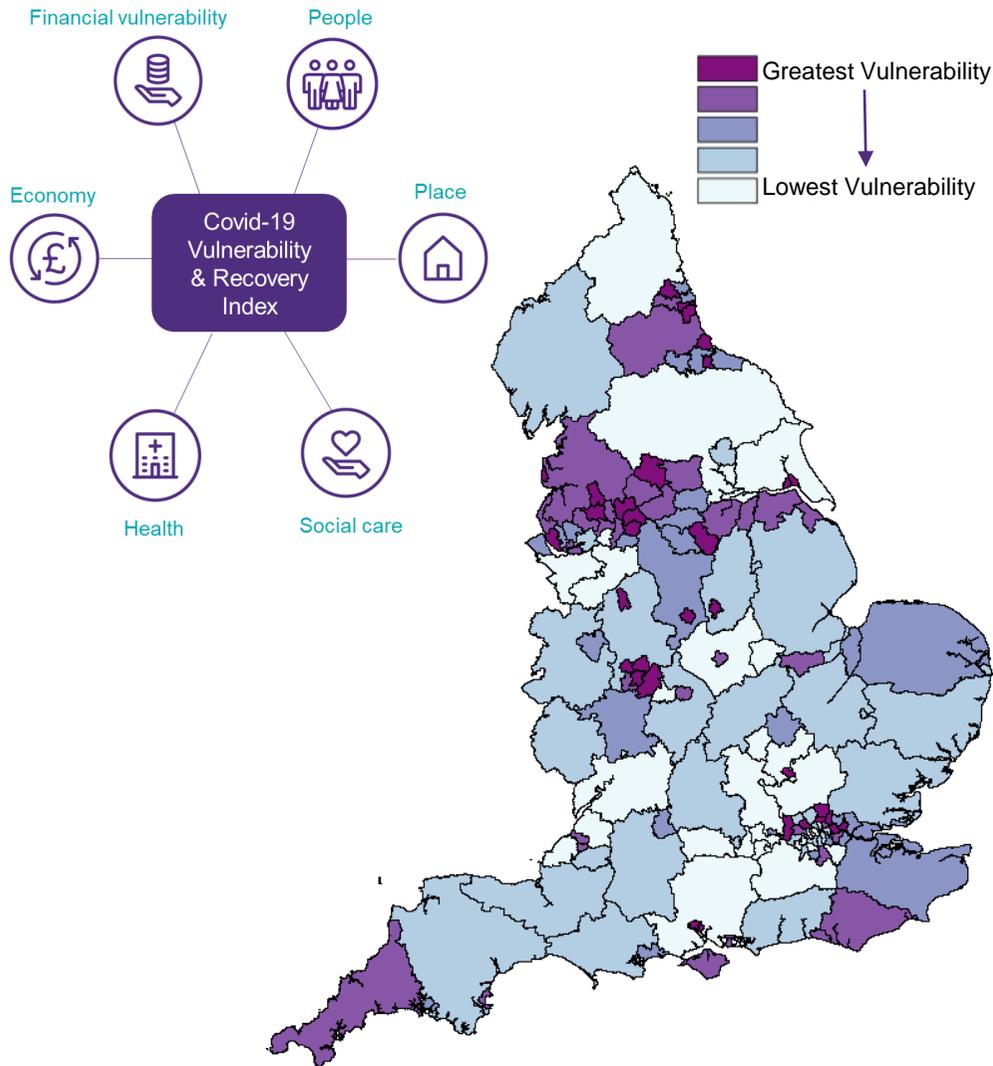
Can we learn from previous recessions?



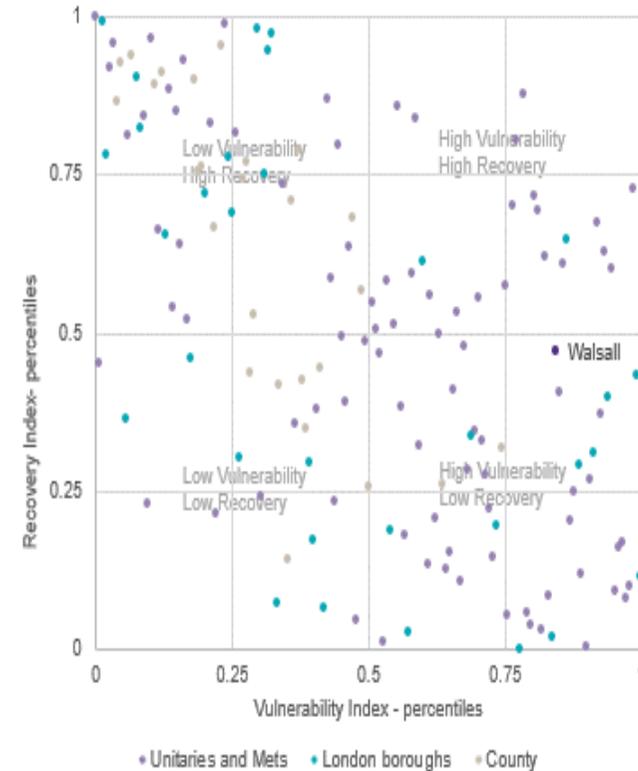
Source: Audit Commission

Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



Vulnerability vs. Recovery



Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	 <ul style="list-style-type: none"> • Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services 	<ul style="list-style-type: none"> • Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	 <ul style="list-style-type: none"> • 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> • 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	 <ul style="list-style-type: none"> • Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system 	<ul style="list-style-type: none"> • Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	 <ul style="list-style-type: none"> • Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> • Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	 <ul style="list-style-type: none"> • Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck 	<ul style="list-style-type: none"> • Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	 <ul style="list-style-type: none"> • Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> • Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy and to existing Government priorities such as levelling-up and future proofing against covid related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development	Recovery plan implementation
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release
Planning for standing up closed services	Place-based leadership – working with other public services, private and third sector to redefine place
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability	More long-term and strategic partnerships and funding models for third sector
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs
Providing leadership for longer-term investment and delivery, to support economic recover rather than just focusing on short-term actions	Review and update Local Plan
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments
Renewed strategic financial planning and focus on financial management	Emergency planning reviews and learning
Data recognised as core pillar of city resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning
Government monitoring regime on additional funding for councils and covid funding administered by councils	Increase in outcomes based procurement and focus on social value

