

Enquiries to:
Maria Meede

Direct Dial: 024 7637 6215

Direct Email:
member.services@nuneatonandbedworth.gov.uk

Date: 19th July 2022

Dear Sir/Madam,

Audit & Standards Committee – 19th July 2022

I refer to the meeting of the Audit and Standards Committee due to be held on Tuesday 19th July, 2022 and attach the External Audit 2020/21 Progress Update, to be considered under agenda item 9, 'Any Other Items'.

Please also note that confidential agenda item 11 (marked to follow) is being deferred to a future Audit and Standards Committee meeting.

Yours faithfully,

Brent Davis

Chief Executive

To: Members of Audit
and Standards
Committee

Councillors R Baxter-Payne (Chair),
J. Sheppard (Vice-Chair), B. Beetham,
T. Cooper, L. Cvetkovic, L. Downs,
M. Green, J. Hartshorn, J. Kennaugh,
N. Phillips and R. Tromans.

AGENDA ITEM NO. 9

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit and Standards Committee - 19th July 2022

From: Director – Finance and Enterprise

Subject: External Audit 2020/21 Progress Update

1. Purpose of Report

1.1 To provide an update to Members regarding the progress of the External Audit for the 2020/21 Statement of Accounts.

2. Recommendations

2.1 That the progress report is noted.

3. Background

3.1 The External Auditor, Grant Thornton have been working with the Finance team to finalise the audit opinion for 2020/21.

4. Body of Report

4.1 Detail of the progress of the External Audit for 2020/21 is provided at Appendix A.

5. Conclusion

5.1 That the enclosed update from Grant Thornton is noted.

6. Appendices

6.1 Appendix A – Nuneaton and Bedworth Borough Council Audit Progress Report and Sector Update.

7. Background Papers (if none, state none)

7.1 None.

Nuneaton and Bedworth Borough Council Audit Progress Report and Sector Update

19 July 2022



Contents

Section	Page
Introduction	3
Progress at July 2022	4
Audit Deliverables	7
Audit Findings to Date	8
Sector Update	9

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction

Your key Grant Thornton team members are:

Grant Patterson

Key Audit Partner

T 0121 232 5296

E grant.b.patterson@uk.gt.com

William Guest

Audit Manager

T 0121 232 5319

E william.guest@uk.gt.com

Allison Thomas

Assistant Manager

T 0121 232 5278

E allison.a.thomas@uk.gt.com

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Standards 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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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 2022

2020-21 Financial Statements Audit

We last reported our progress to the Audit and Standards Committee (the Committee) in January 2022. After our progress report in January 2022 we agreed a plan with the previous Director of Finance and Head of Financial Services to deliver the audit by the end of March 2022. However, there continued to be significant challenges and delays in officers of the Council being able to locate and provide sufficient appropriate audit evidence.

This has meant that we did not receive the responses to our questions and requests by the deadlines which were agreed. We have previously reported to the Committee that the former Head of Financial Services undertook a significant number of responsibilities in respect of the preparation of the Statement of Accounts and therefore there was 'key person risk' which the Council should seek to mitigate through the Head of Financial Services delegating more, supported by training of, and knowledge transfer to, the wider finance team.

Whilst this was planned it did not happen before the Head of Financial Services left the authority. As a result the finance team have struggled to obtain the appropriate audit evidence for our more generic audit testing in respect of creditors/expenditure and journals. There were also specific audit queries which were assigned to the Head of Financial Services where the finance team are struggling to find supporting information. Together these issues have led to the continued delays. It has also meant that the new Director of Finance has had to provide more support than would normally be expected, impacting upon their capacity to undertake their wider strategic role in the short term.

We have documented on slide 5 the outstanding items at the date of writing this report. On slide 6 we are reporting adjustments to the financial statements which have been identified at this time.

We are aware that the new Director of Finance and the finance team are working hard to provide the information we require to conclude the audit. However, it does demonstrate that the key person risk we have previously raised to the committee has significantly impacted the finance team's ability to support entries within the financial statements.

We are currently in discussions with the Director of Finance to agree a revised timetable which will allow the audit to be completed in early August 2022.


2021/22 Financial Statements Audit


Once the audit of 2020/21 is completed, we will agree a plan for the 2021/22 financial statements audit. The Accounts and Audit (Amendment) Regulations 2022 were laid before Parliament on 30 June 2022 and are expected to come into force on 22 July 2022. The amendment to the 2015 Regulations will move the local authority deadline for publishing 2021-22 accounts to 30 November 2022, and will set the publication deadline at 30 September for subsequent years up to 2027-28.


As the audit of the 2020-21 financial statements is ongoing, it is likely that this will also impact the Council's production of its 2021-22 financial statements and the subsequent audit. This will be subject to further discussions with the Director of Finance.

2020-21 Financial Statements Audit Progress




Status of the audit: the outstanding matters as at the time of writing are set out below.

-  - Review of responses from the Council's external valuers and our consideration thereon (relates to PP&E and Investment property valuations) – **One query outstanding on Gresham Road**
- Final manager and engagement lead review of all of the above once completed

-  - Receipt and review of evidence to support the sample of journals – there are 33 samples which remain outstanding;
- Receipt and review of management's assessment of going concern;
- Receipt and review of the useful lives remaining on the assets of the Council to ensure these are appropriate;
- Receipt and review of evidence to support the sample of debtors, creditors, grants, Covid grants received, fees and charges, operating expenditure and income and expenditure completeness;
- Receipt of working papers to support the values within the HRA Notes;
- Receipt and review of management's responses to the queries raised as part of our Collection Fund testing;
- Review of accounting estimates once the work above is completed to ensure these are calculated appropriately;
- Review of leases disclosures within the financial statements;
- Management responses to the findings from the IT audit which was conducted in 2020/21;
- Response to a query raised in relation to provisions;
- Final manager and engagement lead review of the above once completed.

-  - Receipt and review of the updated financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review and enquiries of the legal team, to the date of signing the opinion
- Final manager and engagement lead review of the above once completed

Status

-  High potential to result in material adjustment or significant change to disclosures within the financial statements
-  Some potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

2020-21 Audit Findings to Date

The findings of our audit work to date, which are to be adjusted in the final version of the financial statements, are summarised in the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on (surplus) or deficit on provision of services £'000
Increase in the valuation of the Pingles Stadium due to a calculation error made by the valuer. Dr Property, Plant and Equipment Cr Usable Reserves	-	713	-
Reduction in the business rates appeals provision due to a change in legislation which meant that the Council no longer needed to provide against potential losses for material changes in circumstances. Dr Provisions Cr Operating Expenditure	(710)	710	(710)
Overall impact	(710)	1,413	(710)

We have also identified a number of disclosure changes which are to be updated within the final version of the financial statements.

Progress at July 2022 (cont.)

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor’s Annual Report in November 2022.

Audit Deliverables

2020/21 Deliverables	Planned Date	Revised Date (Reported in January 2022)	Status	
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	July 2021	Complete	Complete	
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	September 2021	Not Complete – Expected March 2022	Not Complete – Expected August 2022	
<p>Audit Findings Report</p> <p>The Audit Findings Report was originally planned to be reported to the September 2021 Audit and Standards committee. However, this is now likely to be reported to the March 2022 committee meeting.</p>	September 2021	Not Complete – Expected March 2022	Not Complete – Expected August 2022	
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	September 2021	Not Complete – Expected March 2022	Not Complete – Expected August 2022	
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	December 2021	Not Complete – Expected June 2022	Not Complete – Expected November 2022	
2020/21 Audit-related Deliverables			Planned Date	
Housing Benefit Subsidy – certification			Status	
<p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>			31 January 2022	Complete
Pooling of housing capital receipts - certification			4 February 2022	Complete
<p>This is the report we submit to Ministry of Housing, Communities and Local Government based upon the mandated agreed upon procedures we are required to perform.</p>				

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Levelling up White Paper – Department for Levelling Up, Housing and Communities (“DLUHC”)

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

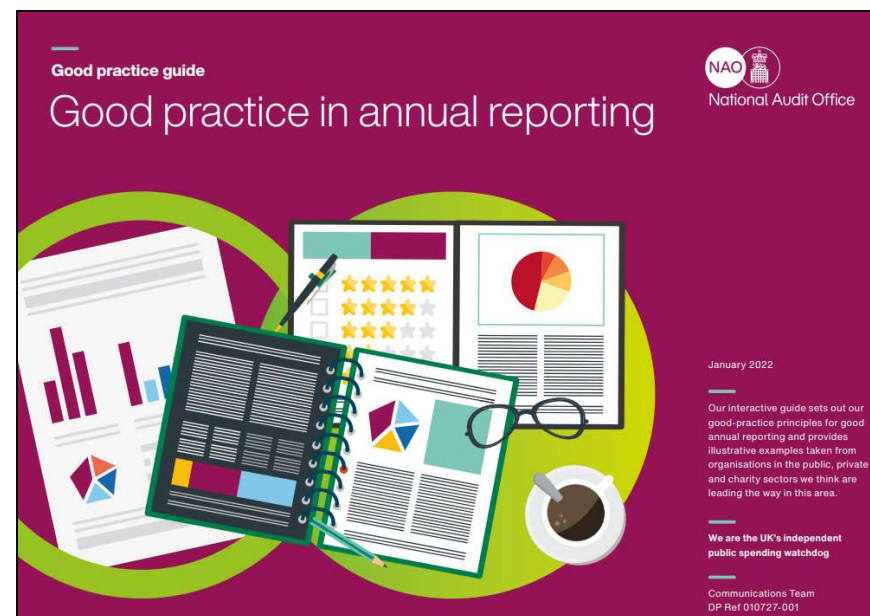
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

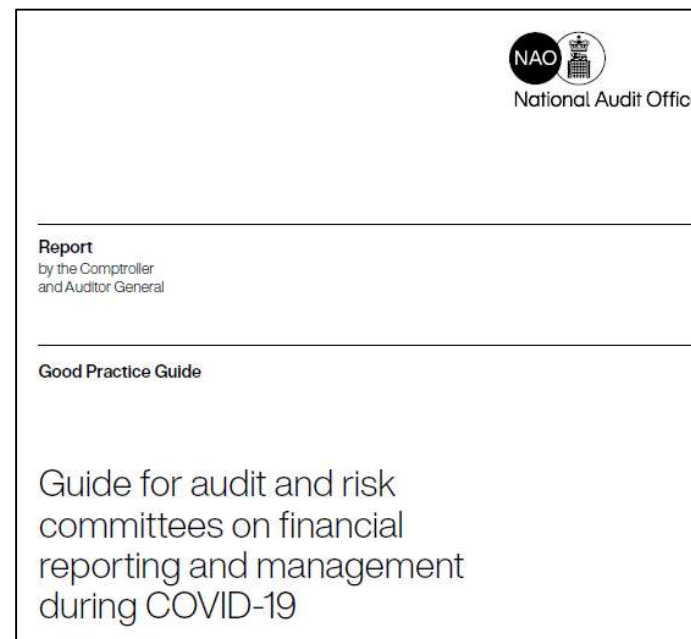
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error





© 2022 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.