

# Audit Progress Report

Cheshire East Council

May 2020





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# 1. AUDIT PROGRESS

## Purpose of this report

This report provides the Audit & Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

## Ensuring resilience and maintaining the level and quality of client service

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

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

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

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

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

## Responding to the changes – working with Cheshire East Council

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

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

## Revised Council reporting deadlines

With regards to the Council's accounting and reporting deadlines, MHCLG have announced that the deadlines for local government financial statement reporting for 2019/20 would be changed to provide flexibility to local authorities, to enable them to focus resources appropriately to respond to the significant challenges.

	Original statutory requirement	Revised statutory requirement
Publish draft Financial Statements and Annual Governance Statement	31 May 2020	31 August 2020 (deadline)
Audit & Governance Committee	30 July 2020	TBC
Publish audited Financial Statements and AGS	31 July 2020	30 November 2020 (deadline)

# 1. AUDIT PROGRESS

In addition to the changes to the reporting dates, CIPFA consulted with the sector around possible changes to the financial reporting requirements through its Code of Practice in Local Authority Accounting 2019/20. Following discussions with practitioners, CIPFA agreed that it would make no changes to the reporting requirements in 2019/20. In the main, we understand that this decision reflected that local authorities have well established systems and processes to collect the information in the format required to prepare the financial statements in the current format, and changing those requirements would either not save local authorities any time in 2019/20, or would mean that significant additional time would be required in 2020/21 to restate prior year statements back into the required format.

This means that the Council will be required to prepare financial statements in the same format as 2018/19, but has significant additional timing flexibility to do so.

In providing additional flexibility to the sector, HM Treasury announced that local authorities would not now be required to implement the new accounting standard on leases (known as IFRS16) for a further year – pushing back the implementation date from 2020/21 to 2021/22. This standard will require a significant amount of work by local authorities, and this delay enables them to focus on the priorities in 2019/20 and 2020/21.

## Audit progress

With regards to our external audit of Cheshire East Council, since the last Committee meeting we have:

- Maintained a regular dialogue with the Director of Finance & Customer Services. We have set up fortnightly video calls to ensure that we remain up to speed with the Council's response to the challenges and its plans regarding financial reporting.
- Held an initial introductory call with the Council's new Chief Executive and agreed a plan for future liaisons.
- Revised our audit resource plans to ensure that we deliver the external audit of the financial statements in line with the Council's revised plans, as set out below.
  - The Council now plans to produce and publish its draft Financial Statements and Annual Governance Statement by 31 July 2020.
  - The Council's plans are to publish the final signed Financial Statements and AGS by the end of November 2020.
  - We now intend to carry out our detailed audit of the draft Financial Statements in September and October 2020, completing the audit well in advance of the end of November 2020.
- Liaised with the Council on specific financial reporting challenges in the current time, particularly reflecting information and views from our national networks with MHCLG, NAO, CIPFA, and other audit suppliers. For example:
  - The significant impact of the pandemic on the financial markets means that there are likely to be significant impacts on the valuation of financial pension fund assets. We have suggested that the Council in these circumstances should obtain their actuarial report from the Cheshire Pension Fund actuary later than ordinarily would be the case, in order that the report includes the actual return on assets.
  - There is increased potential for uncertainty around the valuation of the Council's Property, Plant & Equipment, particularly where that valuation reflects the current market conditions. We are aware that the Royal Institute of Chartered Surveyors (RICS) have provided guidance to their members. Consequently we expect that valuers will be actively considering the need for their valuation reports to include a reference to a material uncertainty in their valuations, reflecting the uncertainty in the market conditions that existed at 31 March 2020. The Council is actively discussing the specific circumstances relating to its valuations with its external valuer.
  - There is increased potential for the Council's other financial assets, for example its investments in companies, or its outstanding debtors, to require impairment, reflecting an increased likelihood of expected losses in the current economic climate.

There are no additional matters to report to the Audit & Governance Committee relating to our 2019/20 external audit.

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
<b>Public Sector Audit Appointments</b>			
1	<b>Publication of 2020/21 scale of audit fees</b>	PSAA has written to all Councils setting out the next year's external audit fees	6
<b>National Audit Office</b>			
2	<b>Building Public Trust Awards – good practice in annual reports</b>	Publication of an interactive pdf document summarising good practice examples in public sector annual reporting	7
3	<b>Local authority investment in commercial property</b>	Report on the developments of LA investments in commercial property	7
<b>Other</b>			
4	<b>Statement on Covid-19, Financial Reporting Council and other Regulators</b>	Statement on the impact of the Covid-19 pandemic on accounting, reporting and auditing	8

## 2. NATIONAL PUBLICATIONS – PSAA

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

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

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

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

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

The published scale fee for the Council's 2020/21 audit is unchanged from 2019/20 at £119,034.

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

## 2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

### 2. Building Public Trust Awards – good practice in annual reports, February 2020

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. In their 17th year, the public sector award is sponsored by the NAO in conjunction with PwC. NAO identified a range of good practice examples and illustrate a number of these in their interactive document.

In 2019 the public sector award for excellence in public sector reporting was won by the Great Ormond Street Hospital for Children NHS Foundation Trust. Kate Mathers, Executive Director at the National Audit Office, sits on the judging panel for the awards. During the judging process, we identified a number of examples of good practice from the public sector annual reports and accounts reviewed, plus those short listed from the private and third sector.

The interactive PDF illustrates a range of good practice examples across annual reports in both the public and private sector.

<https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-february-2020/>

### 3. Local authority investment in commercial property, February 2020

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

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

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

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

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

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

## 2. NATIONAL PUBLICATIONS – OTHER

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

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

The statement sets out that:

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

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

The statement highlights:

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

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

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