

Audit Progress Report and Sector Update

North Devon District Council
Year ending 31 March 2021

12 February 2021



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Introduction



Peter Barber

Engagement Lead

T: 0117 305 7897

E: Peter.A.Barber@uk.gt.com



Andrew Davies

Engagement Manager

T 0117 305 7844

M 07747 006 786

E andrew.davies@uk.gt.com

This paper provides the Governance 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 Governance 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 February 2021

Working with You

Meetings

We will continue discussions with management regarding emerging developments and to ensure the audit process is smooth and effective. This includes the new approach to VFM, and the timing of audit deliverables.

Working Arrangements

With the return to lockdown we envisage having to continue to work completely remotely for a longer period. Working with the Council, we managed this well at the last audit and we will seek to be in regular contact with your finance team in respect of the logistics of these arrangements, recognising that staff, service provision and resident welfare during the pandemic will be your priorities.

Our interim audit is planned for March 2021. We will be discussing this with the finance team to ensure we maximise the use of this time and ensure limited impact on your staff at this busy time.

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 (DWP). The DWP revised the deadline for completion of this work until 31 January 2021. We completed our work and signed off the claim on 27 January 2021.

The claim was certified without amendment. Our initial testing did identify errors that resulted in further work being undertaken. In all cases these resulted in underpayment of benefit, which will be corrected in the 2020/21 subsidy year and therefore have no impact on the subsidy received by the Council.

We have carried out additional testing over the past 3 years on Rent Allowances focusing on the earned income amount used in the assessment of entitlement. Whilst our discovery testing did not identify any issues in 2019/20 we are required to test an additional 40 cases under cumulative knowledge procedures. This work identified 7 cases where the incorrect income had been used. Of these 3 led to underpaid benefit and 4 led to overpaid benefit. The extrapolated impact of the overpaid benefit was £165.

2020/21

The delivery of 2019/20 financial statements audits presented a significant challenge. Whilst North Devon District Council's opinion was signed by the end of November 2020 deadline a number of opinions regionally and nationally have not yet been given. This is largely due to the impact of Covid19. This, and delayed Housing Benefit certification work, has had a significant impact on our ability to complete enough audit planning to issue a 2020/21 Audit Plan in time for the March Governance Committee.

Whilst we will formally present the Audit Plan at the next Governance Committee we will look to issue the Plan in March 2021 after we have completed sufficient audit planning to allow this.

Our interim audit is also due to take place in early to mid March. This work will be focused on:

- Review of the Council's control environment;
- Updating our understanding of the Council's financial systems and business processes;
- Review of Internal Audit reports on core financial systems;
- Early work on any emerging accounting issues;
- Early substantive testing in significant risk areas where possible.

We will report any findings from our interim audit in these progress reports.

Events

Our annual accounts workshop for Chief Accountants is taking place in February 2021 and your finance team have received invites. These will be taking place remotely due to the current homeworking requirements and will cover topical issues and technical areas pertinent to the 2020/21 statutory accounts.

Value for Money

As communicated in our previous sector updates, on 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money. These changes are set out in more detail in the NAO's Auditor Guidance Note 03 which was published on 15 October 2020.

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified /unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We will complete our initial risk assessment in March 2021 and we will report any risks of significant weakness, in our Audit Plan.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Fee Letter Confirming audit fee for 2020/21.</p>	April 2021	Not yet due
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2020-21 financial statements. This also includes the findings of our value for money initial risk assessment.</p>	Late March 2021	Not yet due
<p>Interim Audit Findings We will report to you the findings from our interim audit in our Audit Progress Report.</p>	June 2021	Not yet due
<p>Audit Findings Report The Audit Findings Report will be reported to the September Governance Committee.</p>	September 2021	Not yet due
<p>Auditors Report This is the opinion on your financial statements and annual governance statement.</p>	September 2021	Not yet due
<p>Auditor's Annual Report Under the new Code of Audit Practice this replaces the Annual Audit Letter and is the key output from local audit work on arrangements to secure VFM.</p>	September 2021	Not due yet

Sector update

Councils 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

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
- Depreciation
- Year end provisions and accruals,
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to include:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquiries are completed by management and confirmed by those charged with governance at a Governance Committee meeting. For our 2020/21 audit we will be making additional enquiries on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

