

West Lancashire Borough Council Audit Progress Report and Sector Update

Year ended 31st March 2023

May 2023



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Introduction

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This paper provides the Audit and 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 Audit and 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 <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 May 2023

Financial Statements Audit 2020/21

We received the first draft of the financial statements for 2020/21 to audit in November 2021. The deadline for audit for the 2020/21 financial statements was 30 November 2021, therefore the deadline was not going to be met.

In 2019/20 the audit opinion was only issued in June 2021, when the audit deadline was November 2020. The reasons for the delay were largely due to the lack of quality assurance processes, significant delays in responding to audit queries for samples and working papers and a lack of co-operation in the audit process.

The same issues continued into 2020/21 and the first draft of the financial statements from November 2021 contained errors and inconsistencies.

Among the issues raised by audit, the most significant were:

- Group accounts were not included when it was expected that group accounts would need to be incorporated
- There were no revaluations of other land and buildings despite significant market movements since the previous financial year

We started our audit work as soon as we received the draft financial statements in November 2021. We were progressing the financial statements audit, but we were unable to secure improvements in the timeliness of responses to both audit queries and requests for working papers. We therefore paused the audit in March 2022. We issued the Council with a listing of outstanding requests and expected to resume the audit at the start of July 2022. Discussions with officers in July 2022 determined that the Council was not able to restart the audit as work was still ongoing,

Since March 2022, the Council had reviewed the accounts compilation process and as a result identified a material prior period adjustment for 2019/20 largely due to the incorrect accounting of a grant. Although not material, the Council also took the opportunity to adjust other balances. This has led to significant additional audit work to assess the material and non-material changes to the 2019/20 comparators.

The Council also identified other issues with the compilation of the 2020/21 financial statements as a result of our audit queries as well as their internal quality review processes. Another version of the financial statements was drafted in June 2022, and a further copy in September 2022. A large proportion of the primary statements and disclosure notes changed when compared to the first version of the draft financial statements. As a result, we have carried out a significant amount of work understanding all the changes from version 1 of the financial statements. We were also required to revisit all our samples and work undertaken to date. This has meant additional time to conduct this work, and in some areas additional samples were required and some work needed to be started again.

Turnover of valuation staff within the Council and the use of interim appointments has meant the Council has experienced capacity issues. The work we are required to conduct on these areas has increased in the level of audit challenge and evidence requests due to increased regulatory requirements.

We presented an Interim Audit Findings Report to the 31st January Audit Governance Committee detailing ongoing procedures and emerging audit findings including a large number of audit adjustments.

Following that we have continued performing audit procedures over outstanding areas and have substantially completed our work on the areas of significant risk to the audit including PPE, HRA and Investment Property valuations and journals. We have also substantially completed our procedures over the Group accounts.

We are waiting for the Council to fully respond to queries arising from our technical review of the financial statements. When these are received and amendments have been agreed we will share a final Audit Findings Report and progress to certification of the accounts.

Progress at May 2023 (cont.)

Value for Money Arrangements

We have substantially completed our VFM work with some work outstanding, however, we presented the Interim Annual Audit Report to the Audit and Governance Committee on the 31st January 2023 summarising the work on VFM.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

- Our audit plan and audit plan addendum identified four significant risk areas of focus:
- Financial Resilience
- Tawd Valley Developments Limited
- Late production and poor quality of the financial statements
- Procurement

We have performed further procedures in respect of the risks identified. We identified significant weaknesses in relation to:

- Late production and poor quality of the financial statements
- Management reporting structure of Internal Audit
- Procurement

Four key recommendations are reported and six improvement recommendations as a result of our work. Our Interim Auditor's Annual Report included management responses to each of the recommendations.

Financial Statements Audit 2021/22

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 was extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28. The 2021/22 financial statements were authorised for issue in line with statutory deadlines by 30 June 2022. The Council has worked to bring the timeline back in line with reporting expectations and we continue to work on the 2020/21 audit in order to move onto the work for the 2021/22 audit. We did not meet the statutory deadline for the 2021/22 audit for the completion by 30 November 2022 due to the ongoing 2020/21 audit.

As a result, while we have started some audit planning procedures for the 2021/22 audit, it is not significantly progressed.

Progress at March 2023 (cont.)

Certification of claims and returns 2021/22

We are required to certify the Housing Benefit return and the Pooling of Housing Capital Receipts return for the Council. We completed those engagements to schedule.

Meetings

We continue to meet with senior Finance Officers as part of our audit engagements. We are also due to meet with your Chief Executive in June to discuss the Authority's strategic priorities and plans.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables

	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	July 2021	Completed-reported to the 28 July 2021 Audit and Governance Committee
Audit Progress Report We will report to you the findings from our interim audit within our Progress Report.	February 2022	Completed- Reported to the 31 May 2022 Audit and Governance Committee
Interim Audit Findings Report We will report to you the emerging findings from ongoing audit procedures within our Interim Findings Report	January 2023	Completed- Reported to the 31 January 2023 Audit and Governance Committee
Final Audit Findings Report We will report to you the findings following completion of our audit within our Final Audit Findings Report	July 2023	Not yet due
Auditors Report This includes the opinion on your financial statements.	July 2023	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	July 2023	Interim report submitted to January 2023 Audit and Governance committee

2021/22 Deliverables

	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	July 2023	Not yet due

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

Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Local government procurement and contract management

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector¹. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

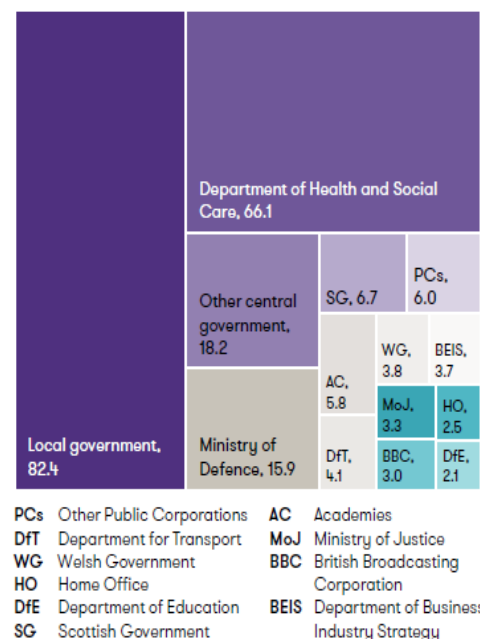
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

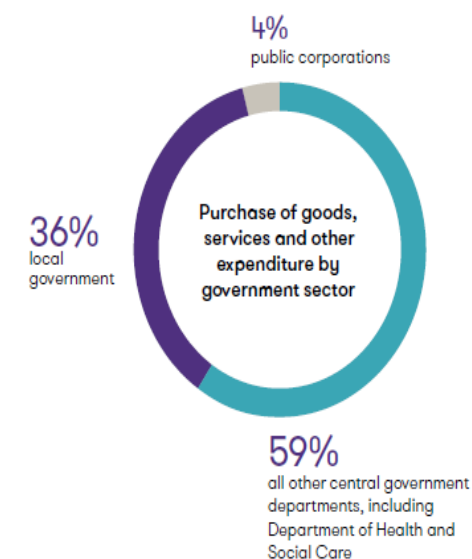
More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

UK public spending

Public spending on goods and services, £ billions – analysis by segment and department²



Goods, services and other expenditure by segment⁴



¹ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
² Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021
³ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
⁴ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

Stonewall Gold Employer: GT's LGBTQIA+ inclusion journey

Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

"Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared. This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is set to be broken. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole.

CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change".

[Click here for link to the article](#)

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

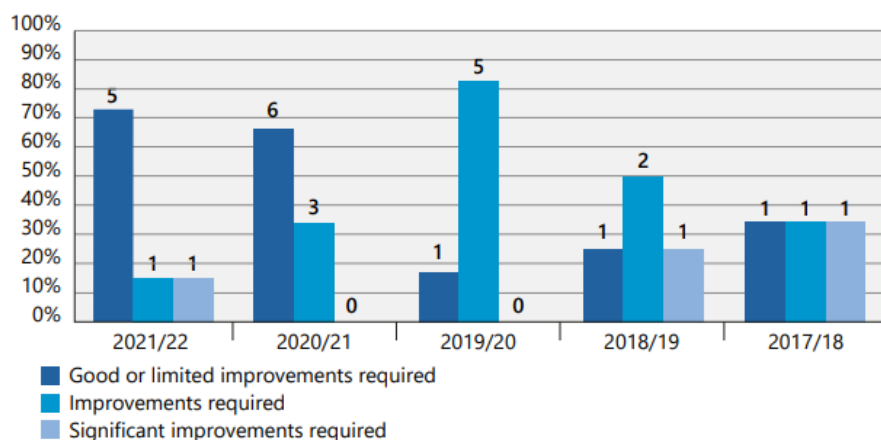
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



Audit Committees: Practical Guidance For Local Authorities – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
 - Governance, Risk and Control
 - Accountability and Public Reporting
 - Assurance and Audit arrangements
 - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)

