

Audit progress report

Stockport Metropolitan Borough Council
July 2020





CONTENTS

- 1. Audit progress**
- 2. National publications**

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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor. It also includes in section 2 a summary of technical / emerging issues within the sector that committee members may find useful.

Audit Progress to March 2020

Audit Committee was due to meet on 18 March 2020. We were due to present our Audit Strategy Memorandum for the Council for the financial year ending on 31 March 2020 to the meeting. The Audit Strategy Memorandum is now included on this agenda.

The Audit Strategy Memorandum sets out timetables for our work that reflected the requirements of Local Audit & Accountability Act 2017 and the associated Accounts & Audit Regulations. Essentially, these required the Council to publish its draft statements of account by 31 May 2020 and set an expectation that we would complete our audit by 31 July 2020. At the time of issuing our Audit Strategy Memorandum we were on track to complete our audit in line with the statutory timescales. We had completed our initial audit planning and our interim visit, scheduled to take place in March was underway.

As at March 2020, there were no matters arising from our work that we needed to draw to the attention of the Audit Committee.

However, since March, it has become clear that our plans are no longer appropriate because the Council and Mazars needed to react to the impact of the Covid 19 pandemic.

The impact of Covid 19 on the Council

During the period from mid March, the Council moved into a period of unprecedented demand and activity as it sought to respond to the challenges for the people of Stockport in respect of public health, essential services and economic support. The Council's actions in response, the changes to the way it worked and to the services provided, were significant.

Since March, the Council has continued to respond to these additional challenges and issues, ensuring it is able to identify and meet the ever changing needs of the residents. At the same time, Council officers have been addressing information requests from, and new requirements set by, central government. In general, the Council's staff have been completing their normal work from home, or have been refocused to assist or support the delivery of front line services across the Borough.

Mazars Response to Covid 19

Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver our services.

On 17 March 2020, following Government announcements, Mazars made the decision to close its UK offices and require all staff to work from home. Recognising the need to continue to deliver our business commitments, our existing contingency planning arrangements have been implemented.

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 our partners and staff are working remotely. Our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients. Nevertheless, the challenges this has brought are significant and still being felt.

1. AUDIT PROGRESS (CONT)

MHCLG Response

MHCLG recognised the inherent risks the pandemic across the local government sector and made amendments to the statutory timeline for the preparation of financial statements:

- Preparation of draft accounts deadline – amended from 31 May to 31 August 2020
- Indicative date for publication of audited financial statements – amended from 31 July to 30 November 2020

Progress since March 2020

Following the changes to working arrangements and to maintain contact with your team, we have made use of video conferencing technology to hold regular discussions on plans and progress being made. As part of this, we discussed and agreed your plans for the preparation of the Council's financial statements. The Council was able to publish its draft set of financial statement on 19 June.

Our detailed audit work began as planned. However, our audit of financial statements continues to be affected by issues attributable to impact of the pandemic. The issues include, for example:

- **Asset valuations** – in particular, in respect of both equity and property assets, the pandemic has had an impact on markets and the assessment of appropriate valuations. We are continuing to obtain and review appropriate evidence from both the Council's and our own experts to be able to conclude on the material accuracy of the valuations as at 31 March 2020.
- **Going concern** – the Council prepares its financial statement on a going concern basis. However, there has been a significant financial impact across local government due to the ongoing role in responding to the pandemic, with resultant significant changes in spending and income patterns that have yet to be fully analysed and fed into financial plans. As auditors, we need information and analysis to support the Council's going concern assessment and its overall financial sustainability, to support our work on both the financial statements and our value for money conclusion. We met with the Borough Treasurer in July 2020 to discuss the Council's financial outturn for 2019/20, and the outlook for 2020/21 and beyond in light of the Covid 19 Pandemic, in order to gain assurance for our work on going concern and our value for money conclusion.
- **External information** – as in previous years, there are areas where we seek to place reliance on the work of others when issuing our opinion. These relate principally to the audit of group companies for the consolidated accounts, and the financial disclosures arising from the local government pension scheme that Council staff are members of. Delays in receiving information will impact on the completion of our audit. To date we are not aware of any delays which would impact on the timing of issuing our audit opinion.
- **Changes to working** – while the existence of tools such as Zoom and Microsoft teams have made the move to remote working easier, and have assisted in completing work, there remains a challenge in ensuring we have appropriate information and evidence to support our audit testing and, where there are questions or queries, ensuring these have been addressed.

1. AUDIT PROGRESS (CONT)

All of these matters are impacting on our ability to complete the audit by 31 July 2020 as we had initially planned. Following discussion with senior officers, we have agreed a revised timetable for the completion of the audit and presentation of our Audit Completion Reports to Audit Committee.

We are continuing to complete our audit testing as far as possible now so that work is substantially complete by the end of July. However, we are aware that some elements, particularly those areas where we rely on third parties, will take longer to conclude. We have therefore agreed we will present our Audit Completion Reports to the Audit Committee at its meeting on 9 September 2020.

We can confirm, that based on our work completed to date, there are no matters to bring to the attention of Audit Committee.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
Public Sector Audit Appointments			
1	Publication of 2020/21 scale of audit fees	PSAA has written to all Councils setting out the next year's external audit fees	7
National Audit Office			
2	Local authority investment in commercial property	Report on the developments of LA investments in commercial property	8
3	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19	Guide issued in response to the changes Committees are facing as a result of the pandemic	9
Other			
4	Statement on Covid-19, Financial Reporting Council and other Regulators	Statement on the impact of the Covid-19 pandemic on accounting, reporting and auditing	10

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 £103,319.

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

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

2. 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 – NATIONAL AUDIT OFFICE

3. Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19

The guide was issued by the National Audit Office in response to the changes Committees are facing as a result of the pandemic.

Audit and risk committees are integral to the scrutiny and challenge process. They advise 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.

While organisations have existing risk management processes in place, the risk appetite may have changed as a result of COVID-19, to be able 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.

The guide sets out some questions to help audit and risk committee members understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated.

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

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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