

Hastings Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

2 October 2022



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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.

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Introduction

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This paper provides the Audit 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 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 October 2022

Financial Statements Audit 2019/20

At the last Audit Committee meeting we reported on our work to close a small number of issues preventing us from signing the auditor's report and issuing the audit certificate. We are pleased to report that this work is complete and the auditor's report 2019/20 has been issued along with the certificate of closure of the audit. We would like to extend our thanks to your finance team in supporting the work to complete the audit

Through understanding of the control environment, and building an understanding of the make-up and derecognition accounting mechanisms around the authority's infrastructure assets, we were able to conclude satisfactorily that this larger national issue was not significant/material.

Fee Variance for the Audit 2019/20

We have communicated and discussed previously the reasons for the delays in the completion of the audit. Due to these issues we have proposed a fee variance for the audit set out below. This fee variance has been shared for discussion with your Chief Finance Officer. Note that all fee variances are also subject to scrutiny and approval by Public Sector Audit Appointments (PSAA).

The fee variance is split into the top table which is the 2019/20 fee with increases due to **external factors** (additional work we are required to complete due to regulator requirements, Covid-19 impacts on the audit, remote working instead of on-site working taking longer, group accounts/HHC Ltd audit work not included in the scale fee, infrastructure work not included in the scale fee) which brings us to the effective revised base fee (with the 2020/21 fee for context against this). We then set out the fees we have calculated for **specific issues** related to quality of working papers/evidence, delays in working papers, account iterations where the authority was correcting material errors etc below this as the fee variance.

Fee variance – External Factors

	Audit Fee (£)
Scale fee 2019/20 published by PSAA	35,742
Increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	2,500
Enhanced audit procedures for Property, Plant and Equipment	1,750
Enhanced audit procedures for Pensions	1,750
New Standards/developments in 2019/20	1,500
Fee variance - additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19.	2,500
Fee variance - due to remote working caused by the Covid-19 pandemic	5,000
Additional work required to be carried out due to infrastructure assets issue	2,500
Group accounts - additional audit work related to gaining sufficient appropriate audit evidence for the transactions/balances of Hastings Housing Company Ltd, and for the audit of the group financial statements	5,000
2019/20 fee before fee variances related to specific audit delays/working paper issues	58,242
<i>For context the fee which we would charge for the 2020/21 based on good working papers, fast turnaround of audit queries and everything going according to plan is £58,742</i>	

Progress at October 2022 (continued)

Fee variance – Specific issues related to quality of working papers/evidence, delays etc

Fee variance 2019/20 related to audit delays/working paper issues	
Significant/material errors in the initial published draft statements. Leading to audit work needing to be repeated/restarted based on revised notes. Specifically amendments to the pension liability and associated notes and revisions to HB overpayment debtors and HB grant subsidy journal entries (due to pensions journals entered into the accounts being materially incorrect). This also meant several subsequent versions of accounts had to be recasted/checked and our lead schedules set up again.	5,000
Delay in working papers. We weren't provided with a full compliment of working papers at the beginning of the audit leading to delays in work/our work not being completed in the initial fieldwork period. This meant the audit had to be handed over between team members to other team members unfamiliar with the client or the work completed to date in order to continue/complete the work. This is really disruptive to the overall audit progress.	7,500
Quality of working papers and supporting evidence - the working papers provided tend to be unclear without much explanation/commentary to allow the audit to progress quickly. This is particularly true of balance sheet areas for debtors, creditors and the Collection Fund requiring additional probing and queries by the audit team to work through these areas, however overall working papers require improvement to allow for an efficient audit. Note; we have previously highlighted issues with the quality of working papers and debtor/creditor ledger reconciliations/existence as a significant control issue in the 2018/19 audit findings.	10,000
Listing/populations not cleansed - listing and populations provided by the authority were rarely cleansed/reconciled listings. Particularly for debtors and creditors areas and listings from Northgate systems, this means reconciling to the general ledger and reaching a consistent population of year end that can be sampled requires additional work by the audit team	3,000
Due to a large number of changes to the financials and disclosures in the financial statements there were a lot of subsequent corrected versions of statements which needed to be re-checked in order to ensure that changes were correctly made. Closing down these issues required more time than would be expected. Note - this is also an issue consistent with the 2018/19 audit where a large number of changes were identified.	1,000
Total fee variance proposed based on specific audit delays/working paper issues	26,500
Total fee	84,742

Progress at October 2022 (continued)

Financial Statements Audit 2020/21

On the 4 July 2022 we commenced our audit fieldwork. Your finance team published draft 2020/21 financial statements in July 2021, and a revised set of statements for audit was presented to us in June 2022 on which we have started our audit work.

A 5-6 week period was initially set out for completion of the audit fieldwork. The audit was not fully completed during this initial period; although largely initial working papers were provided, we have faced some of the same issues which were encountered in prior years in working through and processing these working papers in an efficient way. This included;

- Debtors and creditors working papers – difficulties in compiling the various different listings of these balances into a clean listing to sample from and understanding the entity’s own procedures in reconciling these sub-ledgers for clarify of what is on the balance sheet at the year end;
- Provision of cleansed/consistent populations of transaction for our audit testing;
- Clarity/quality of supporting documentation for samples/queries;
- Significant delay (several weeks into the initial audit fieldwork visit) in providing supporting information/evidence for the Land and Building revaluation to enable our complex work on this estimate to progress efficiently;
- Speed of turnaround of audit samples and audit queries.

We have identified a further period from mid-October onwards during which the team will restart the audit. We will be meeting with your finance team to work through the outstanding items to make sure that information is available to allow us to make efficient progress and to complete the audit as quickly as possible with a clear aim to have the audit completed before the end of November.

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. The work in completing our Auditor’s Annual Report is currently ongoing, and we still anticipate issuing our Auditor’s Annual Report for 2020/21 alongside the opinion on the financial statements.

Progress at October 2022 (continued)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2021/22 claim is anticipated to begin in November 2022. The deadline though not yet specified would usually be the 31 January 2023 (noting this was extended to the 28 February for the 2020/21 claim).

Meetings

We continue to meet with Finance Officers regularly as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments to promote the efficient delivery of the audit.

Sector Updates and workshops

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

We also provide

- the opportunity to access support from experienced technical colleagues who attend the ICAEW Public Sector Financial Reporting Panel, and ICAEW Public Sector Audit Panel. This means you will be at the forefront of accounting developments. Through this relationship we also ensure that communication works both ways and feed issues up from our LG clients
- insight from our regular meetings with CIPFA and NAO where we discuss emerging developments. We will also raise any areas of concern that you have over policy, procedure, or regulation with your regulators.
- technical and sector updates for the Audit Committee.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	Nov 2021	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee. Date to be confirmed, but having proposed a date to restart the audit in October 2022, we would anticipate having an Audit Findings Report for the end of November 2022.</p>	Nov/Dec 2022	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements. Date to be confirmed- this is subject to the speed of turnaround of audit queries/samples, the clarity of explanations and quality of documentation/evidence provided.</p>	TBC	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	Nov/Dec 2022	Not yet due
2021/22 Audit-related Deliverables	Planned Date	Status
<p>Housing Benefit Subsidy – certification</p> <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>	Jan-Feb 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:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

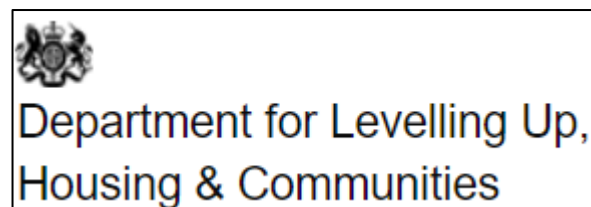
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



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

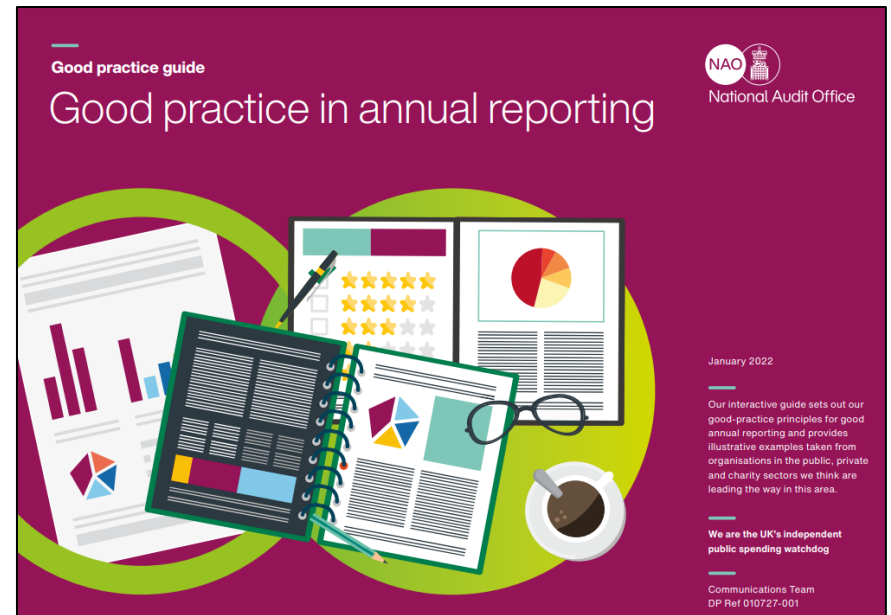
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

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.

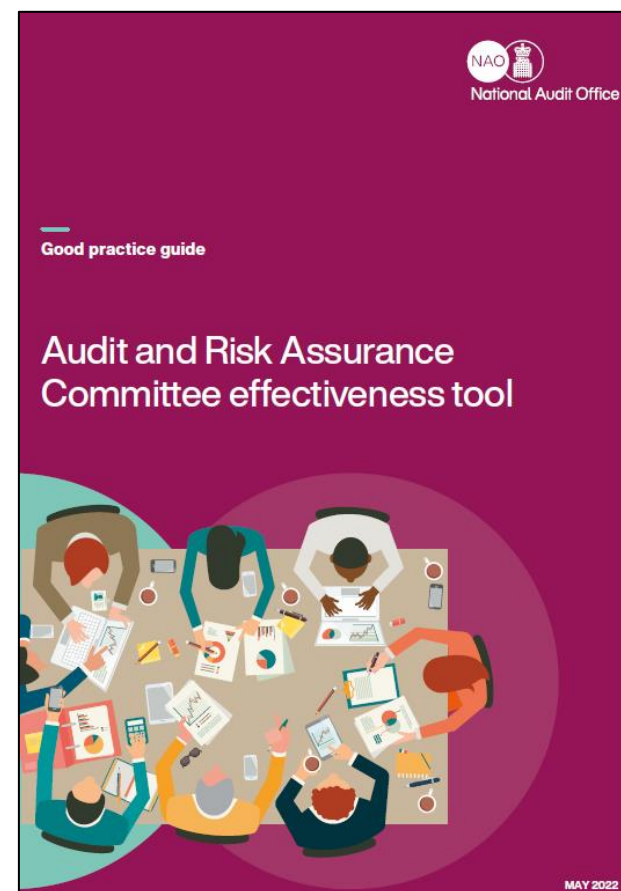
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

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](#)



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