

Hastings Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

16 March 2023



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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 March 2023

Financial Statements Audit

2020/21 year

Our aim as at the last update in January 2023 was that we would be able to substantially complete the fieldwork testing on the audit and be in a position to present an Audit Findings Report to this Audit Committee meeting.

We have not been able to achieve this for various reasons:

1. Ongoing variability in the speed of responses to audit queries and in whether these sufficiently address the query to allow the audit team to close the issue;
2. The 2020/21 audit has been in progress over long period which means there is difficulty in continuing to resource a long running audit where other audits are also being completed alongside. This is leading to handover of work between audit team members, leading to the work taking longer to complete.

The remaining work is limited to a small number of accounts areas, but includes completing testing of creditors, closing down final audit queries on land and building valuation, closing down some queries on valuation of properties in the subsidiary and then clearance of senior management review notes on the audit work completed. We continue to work closely with your finance team in completing the audit work.

2021/22 year

Progress on the 2020/21 audit is not yet sufficient to allow us to begin planning the 2021/22 audit. We are liaising with officers to discuss a plan to catch up on the financial statements audits for these years.

Accounting for infrastructure

Many authorities do not possess the records to be able to fully comply with the requirements. Following extensive consultation and discussions with interested parties, government has issued a Statutory Instrument to simplify accounting for infrastructure assets until the 2024/25 financial year. We will ensure that the 2020/21 statement of accounts reflects this.

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.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue the 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 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. 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.

We presented an Interim Auditor’s Annual Report for 2020/21 to the Audit Committee to its meeting of 12 January 2023.

We intend to undertake the VFM work in June-July 2023 and prepare a joint VFM report for both years in July 2023.

Progress at March 2023 (cont.)

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 began in November 2022, and is currently still in progress.

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. Accounts Workshop were provided in January and February 2023 which your officers will be invited to, 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 Fees

We have submitted a proposed fee variance for the 2019/20 audit to your Chief Finance Officer, which was included in the progress report communicated to you in October 2022. This is still under discussion with your Chief Finance Officer and consideration by Public Sector Audit Appointments (PSAA).

We will submit a fee variance for the 2020/21 audit when we have completed our fieldwork.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 320 264 352">Audit Plan</p> <p data-bbox="120 368 1576 472">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 data-bbox="120 496 421 528">Audit Findings Report</p> <p data-bbox="120 544 1576 647">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>	TBC	Not yet due
<p data-bbox="120 671 338 703">Auditors Report</p> <p data-bbox="120 719 1576 823">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 data-bbox="120 847 448 879">Auditor's Annual Report</p> <p data-bbox="120 895 1576 963">This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	Completed	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

Infrastructure Assets Update

Background

Most local government (LG) entities, excluding police bodies, will own infrastructure assets. The balances for highways authorities will be particularly significant and are likely to be material. For LG entities with material infrastructure assets there is therefore a potential risk of material misstatement related to this balance.

The inherent risks which we identified this year in relation to infrastructure assets were:

- An elevated risk of the overstatement of gross book value and accumulated depreciation figures, due to lack of derecognition of replaced components
- A normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairments of infrastructure assets, and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UEls) in calculating depreciation charges.



How these issues have been addressed?

Since these issues were first identified we have been working with CIPFA and the English and Scottish Governments to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions have been put in place in the interim. These short-term solutions include the issue of Statutory Instruments (SIs) by government and an update to the CIPFA Code.

The CIPFA Code update was issued on 29 November 2022. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022 – see [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022 \(legislation.gov.uk\)](#). CIPFA issued [CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution](#) on 11 January 2023, which includes further guidance and illustrative examples on the depreciation of infrastructure assets and the associated useful economic lives (UEls).

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



Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

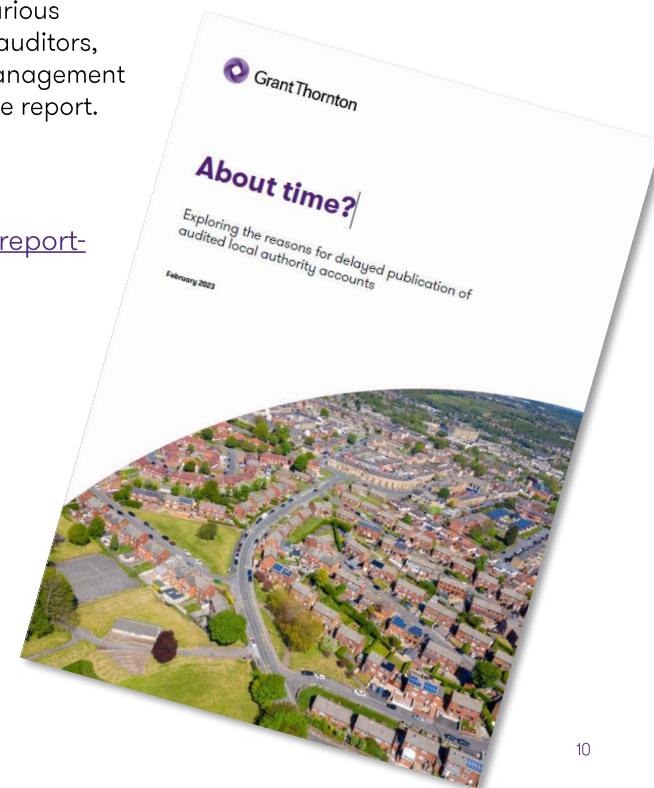
- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

<https://www.grantthornton.co.uk/insights/report-key-challenges-in-local-audit-accounting/>



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

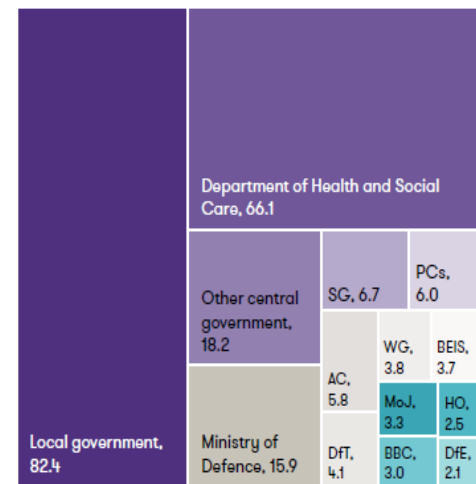
Read the full report here:

<https://www.grantthornton.co.uk/insights/local-government-procurement-and-contract-management-lessons-learned/>

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

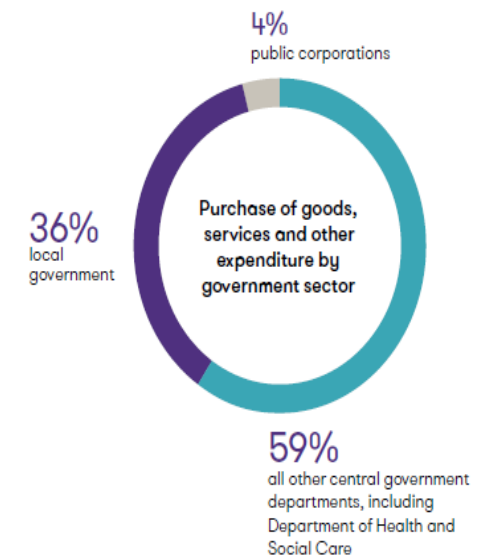
UK public spending

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



PCs Other Public Corporations AC Academies
 DfT Department for Transport MoJ Ministry of Justice
 WG Welsh Government BBC British Broadcasting Corporation
 HO Home Office
 DfE Department of Education BEIS Department of Business, Industry Strategy
 SG Scottish Government

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”.

[Read the full report here:](https://www.cipfa.org/cipfa-thinks/articles/sustainability-finance-at-the-heart-of-decision-making)

<https://www.cipfa.org/cipfa-thinks/articles/sustainability-finance-at-the-heart-of-decision-making>



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