

# Audit Progress Report and Sector Update

Devon and Cornwall Police and Crime Commissioner and Chief Constable  
Dorset Police and Crime Commissioner and Chief Constable

Year ending 31 March 2020

October 2020



# Contents and Introduction



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This paper provides the Independent Audit Committee with a report on progress in delivering our responsibilities as your external auditor.

The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Independent 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. Click on the following link to be directed to the website <https://www.grantthornton.co.uk/>.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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# Progress at October 2020

## Financial Statements Audit

We reported to the Extraordinary Independent Audit Committee meeting in September that we were intending to issue unqualified opinions in respect of the PCC and Chief Constables for both Devon & Cornwall and Dorset.

We are not currently able to issue our audit opinions due to outstanding issues in respect of the pension fund work:

- We are awaiting the assurance letters from the auditors of the Devon Pension Fund and the auditors of the Dorset Pension Fund.
- There are outstanding queries in respect of the “Experience item” for Dorset Police, which have been raised with the actuary by management.

The actuarial reports, updated for the McCloud remedy, have been received from the actuary and management have updated the financial statements. We are currently in the process of reviewing this information.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second 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 2018/19 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 previously discussed this with your Chief Finance Officers (CFOs) including any proposed variations to the Scale Fee set by PSAA Limited and have communicated fully with Those Charged with Governance.

We have recently written to the s.151 officers indicating that, due to Covid, our audits are taking longer than in previous years. This is a similar picture to the experiences in both the NHS and corporate world. We are mitigating this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is possible that this will not be sufficient to cover the full additional cost. It is too soon to estimate whether there will be any additional cost to your audits and we will remain in dialogue with the CFOs.

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

# Progress at October 2020

## Value for Money

We reported our VFM work for 2019/20 work in the Joint Audit Findings Reports to the Extraordinary Independent Audit Committee meeting in September. We plan to give unqualified VFM conclusions when we are in a position to issue the audit opinions.

The NAO consultation on a new Code of Audit Practice (the “Code”) has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015.

The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. Further information is included in the Sector Update.

## Other areas

### Meetings

We last met (virtually) with Finance Officers in September as part of our ongoing audit liaisons. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective; especially given the need to work remotely.

We will update the Independent Audit Committee as part of our year-end reporting on the resolution of each of these points.

### Events

We will keep you informed of upcoming events and ensure that invitations are circulated to both management and the committee. Plans are currently on hold as we continue to work remotely.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letters</b> Confirming audit scale fees for 2019/20.	April 2019	Complete
<b>Joint Audit Plans</b> We are required to issue detailed accounts joint audit plans to the Independent Audit Committee setting out our proposed approach in order to give a opinions on the Group, Police and Crime Commissioner and Chief Constable 2019/20 financial statements for Dorset and Devon and Cornwall.	April 2020	Complete
<b>Interim Audit Findings</b> We reported to you the findings from our interim audits within our Progress Report.	April 2020	Complete
<b>Joint Audit Findings Report</b> The Joint Audit Findings Reports will be reported to the Extraordinary Independent Audit Committee in September.	September 2020	Complete
<b>Auditors Reports</b> These are the opinions on your financial statements, annual governance statements and value for money conclusions.	November 2020	Cannot be issued currently
<b>Joint Annual Audit Letters</b> These letters communicate the key issues arising from our work.	December 2020	Will be issued within one month of the audit opinions.

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# Sector Update

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Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

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 Police service 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 sector specialists](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A dark purple rectangular button with the text "Police" in white, sans-serif font.

Police

## State of Policing: The Annual Assessment of Policing in England and Wales 2019

This is Her Majesty's Chief Inspector of Constabulary's report to the Secretary of State under section 54(4A) of the Police Act 1996. It contains his assessment of the efficiency and effectiveness of policing in England and Wales based on the inspections we carried out between May 2019 and March 2020.

This year's assessment starts with initial observations on the quality of the police response to the public health emergency created by COVID-19, and the wider demands the police faced during 2019

The report can be accessed [here](#)

## COVID-19 Update

Public health emergencies, such as the Coronavirus epidemic, put additional strain on the UK's emergency services. As a result, until further notice, HMICFRS has suspended all inspection work requiring contributions from police forces and fire and rescue services, to enable them to focus on their vital work at this time. This includes the joint-agency inspections, which are carried out with other inspectorates.

A letter has been sent to all policing and fire leaders, including chief constables, chief fire officers and the relevant elected bodies.

## Consultation on the proposed police inspection programme and framework for 2020-21

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) had launched a consultation on its proposed police inspection programme and framework for 2020-21 which was scheduled to run until April 2020. The consultation deadline has also been extended indefinitely due to the Coronavirus pandemic.

The suspension continues to be under review and updates can be found [here](#).

## Failing police collaborations cost forces money, time and effort

Collaboration between police forces when done well can save money, reduce bureaucracy and improve efficiency and effectiveness. However, too many police collaborations are failing, or not giving the results they should.

A recent report looks specifically at how forces collaborate in order to provide better, more efficient services to the public. *The Hard Yards: Police to Police Collaboration* is based on findings from HMICFRS's Integrated PEEL Assessments (IPA) inspections for 2018/19.

Inspectors found that:

- too many collaborations do not have a clear purpose or objective that is understood by all involved;
- some forces are not tracking the benefits of collaboration and fail to think beyond financial savings;
- complicated and bureaucratic decision-making undermines the effectiveness of many collaborations; and
- some forces are failing to put people with the right skills in their collaborations and are not effectively sharing learning

The report can be accessed [here](#).

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# Home Office

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## **More than 3,000 extra officers join police in recruitment drive**

Police ranks across England and Wales have been bolstered with an additional 3,005 officers since the government launched a major recruitment drive, according to figures released on 30 April 2020.

The figures follow the launch of the government's campaign in September 2019 to recruit 20,000 extra officers over the next three years.

They show 3,005 recruits joined the police specifically as part of the uplift programme. In total, forces recruited 6,435 officers from November 2019 to March 2020, including recruitment planned before the government campaign was announced.

The statistics show that forces across England and Wales have successfully accelerated their recruitment plans and are on track to meet their target of 6,000 by March 2021.

There are now a total of 131,596 officers, a 5% increase on March 2019 – of which uplift officers account for approximately half.

The College of Policing has announced it is rolling out new online assessment centres, which will ensure that recruitment continues during the coronavirus outbreak.

The college's online assessment process will take candidates through situational judgement tests, briefing exercises and interviews. The service was launched nationally in June.

New recruits are receiving tailored training so they can be safely deployed to the frontline and support the police's emergency response as soon as possible.

The full article can be accessed [here](#).



Home Office

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# Grant Thornton Publications

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## Events after the reporting period

If the widespread impact of COVID-19 began during the entity's reporting period, the impact will be reflected in its financial statements for that period. However, to the extent that the widespread impact of COVID-19 occurred during the entity's 'subsequent events period' (i.e. the period between the end of the reporting period and the date when the financial statements are authorised for issue), management must determine how material developments after the year-end should be reflected in the entity's financial statements for the period under audit or review.

In accordance with IAS 10 'Events after the Reporting Period', entities are required to distinguish between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date). Entities are required to update the carrying amounts of any assets or liabilities recognised in their financial statements to reflect any adjusting events that occur during the subsequent events period.

More information and the full report can be found [here](#).

## In-depth insight into the impact of COVID-19 on financial reporting in the local government sector

Public Sector entities across the country are now working in an environment that is completely different to the one they were in just months ago. The effect of COVID-19 will not be limited to the 2019/20 and 2020/21 financial years. This has several ramifications that local authorities will need to carefully consider in preparing and finalising their 2019/20 narrative report, financial statements and annual governance statement.

Our report indicates the key challenges for financial reporting, including the regulatory impact, with elements also impacting on accounting in Police bodies.

More information and the full report can be found [here](#).

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# Covid-19 update

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## Lessons learned

All organisations, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Public sector bodies are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how they interact with their communities and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no “one size fits all” to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into an area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Many entities have recognised the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of Personal Protection Equipment, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

The majority of entities understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

## The future?

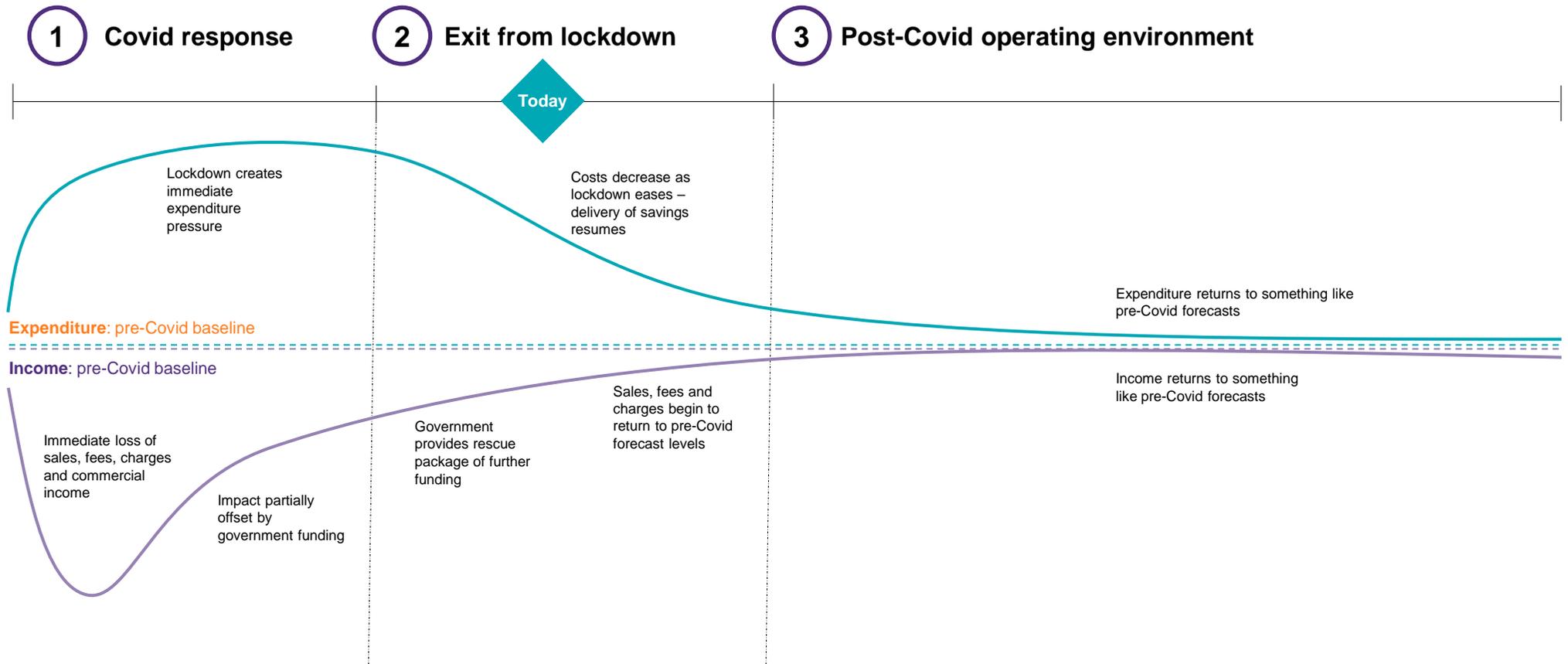
Covid-19 has only increased volatility and uncertainty for public sector bodies. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year’s budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the services provided. Some entities are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies.

As already noted, places will vary depending on their socio-economic and demographic characteristics, but all entities are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient. Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Public sector bodies have always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that they will continue to demonstrate the capacity to lead places and deliver services.

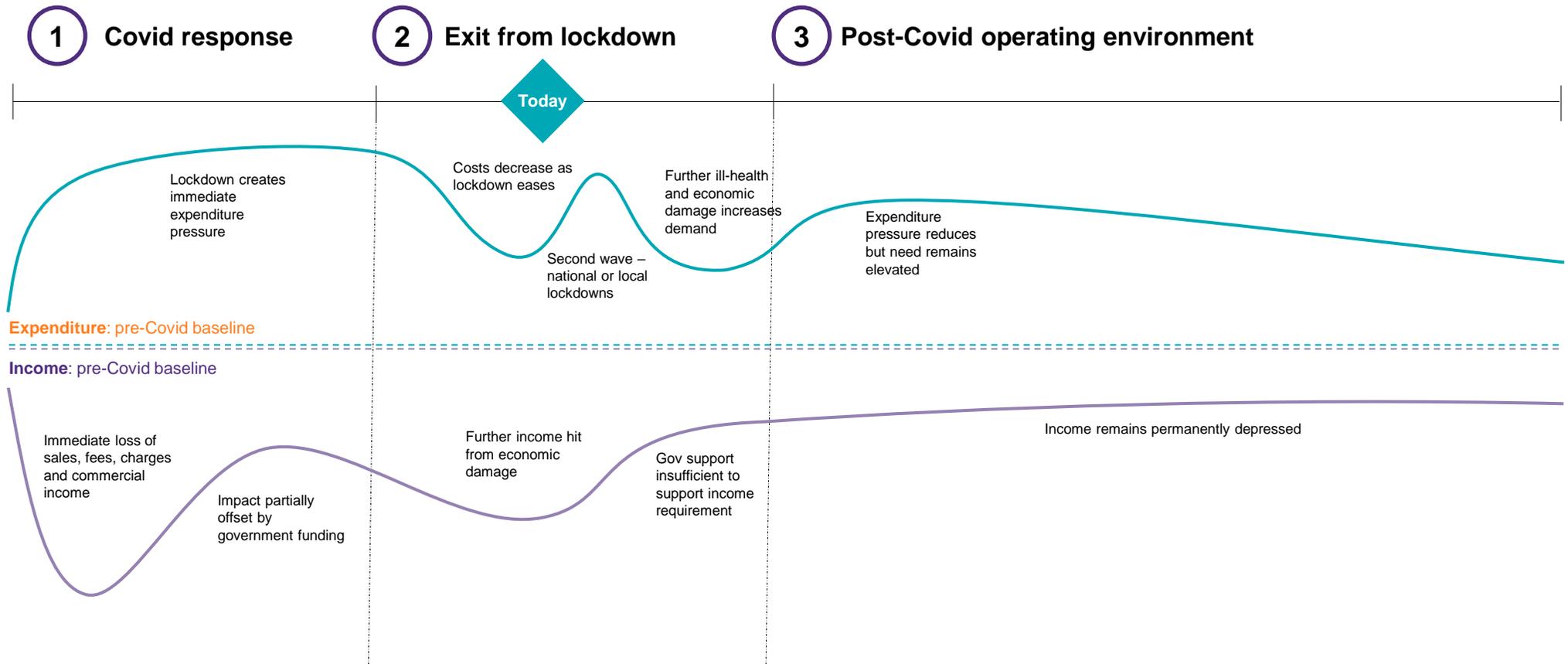
# Example scenarios

## Scenario 1 – swift return to normality



# Example scenarios (Cont'd)

## Scenario 2 – second wave and ongoing disruption



# Scenarios and hypotheses

## Public Service areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
<b>People &amp; community</b> 	<ul style="list-style-type: none"> <li>Multiple lockdowns and ongoing disruption</li> <li>Community dependency and expectation of sustained response</li> <li>Turbulence and activism within the Voluntary and Community Sector</li> <li>Socio-economic inequality is compounded</li> </ul>	<ul style="list-style-type: none"> <li>Smooth exit from lockdown to a “new normal”</li> <li>Community mobilisation is channelled into ongoing resilience</li> <li>Strengthened Voluntary and Community Sector relationships and focus</li> <li>Systemic response to inequality is accelerated</li> </ul>
<b>Business &amp; economy</b> 	<ul style="list-style-type: none"> <li>16% reduction in Gross Value Added for 2020 based on Office for Budget Responsibility reference scenario</li> <li>Slow / uneven economic recovery and “long tail” on unemployment</li> <li>Central gov / Business, Energy &amp; Industrial Strategy focus investment on areas furthest behind</li> <li>Loss of tourist &amp; student spend causes unmitigated damage</li> <li>'V' shaped recovery results in 2-3 year recovery period</li> </ul>	<ul style="list-style-type: none"> <li>5-10% reduction in Gross Value Added</li> <li>Rapid economic recovery with employment levels close behind</li> <li>Central government “back winners” with investment</li> <li>Adaptation allows resumption of tourist and student economy</li> <li>Business base is weighted towards growth sectors</li> </ul>
<b>Health &amp; wellbeing</b> 	<ul style="list-style-type: none"> <li>Increased demand and escalating need due to fallout from lockdown</li> <li>Newly-vulnerable cohorts place strain on the system</li> <li>Unit costs increase further as markets deteriorate and providers fail</li> <li>Transport unable to adapt to social distancing</li> <li>Imposed disruption of care system</li> </ul>	<ul style="list-style-type: none"> <li>Positive lifestyle changes and attitudes to care reduce demand</li> <li>Needs of newly vulnerable cohorts met through new service models</li> <li>New investment in prevention and market-shaping manage costs</li> <li>New ways of working leading to stronger staff retention</li> <li>Locally-led reform of health and care system</li> </ul>
<b>Political &amp; regulatory</b> 	<ul style="list-style-type: none"> <li>Local government and police bodies side-lined by a centralised national recovery effort</li> <li>Unfunded burdens (e.g. enforcement and contact-tracing)</li> </ul>	<ul style="list-style-type: none"> <li>Local government empowered as leaders of place-based recovery</li> <li>Devolution and empowerment of localities</li> </ul>
<b>Environment</b> 	<ul style="list-style-type: none"> <li>Opportunity missed to capture and sustain environmental benefits</li> <li>The end of the high street / town centres</li> <li>Emissions and air quality worsened by avoidance of public transport</li> <li>Capital programmes stuck</li> </ul>	<ul style="list-style-type: none"> <li>Ability to invest in transport modal shift and green infrastructure</li> <li>Changed working patterns rejuvenate town centres</li> <li>Sustained impact on emissions due to new behaviours</li> <li>New, shovel-ready infrastructure programmes</li> </ul>
<b>Organisational</b> 	<ul style="list-style-type: none"> <li>Inadequate funding forces fiscal constraint</li> <li>Working practices return to status quo – increased operating costs</li> <li>Imposed structural change within the place</li> <li>Austerity</li> <li>Commercial portfolio becomes a liability</li> </ul>	<ul style="list-style-type: none"> <li>Adequate funding enables a programme of targeted investment</li> <li>Learning and adaptation to new operating environment</li> <li>Energised system-wide collaboration and reform</li> <li>Fiscal reform and civic renewal</li> <li>Commercial portfolio reshaped for economic and social gain</li> </ul>

# What strategy is needed in response?

## *From response to recovery*

### **Learn, adapt and prioritise**

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the entity's purpose in an uncertain context and where will it focus?

## *Mitigating the worst case*

### **Consolidate and build resilience**

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

## *Steering towards the best case*

### **Invest in renewal**

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

# Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers 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.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation 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. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to 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. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

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



# Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price: quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

# The Redmond Review

## The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

### Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

### The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

### How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

# Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

## Value for Money - Key changes

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

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

## The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

## Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)

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