Wiltshire Council and Pension Fund

Audit progress report and sector updates

October 2024

Contents

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 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 the risks which may affect the Council 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.

Introduction

Your key Grant Thornton team members are:

Jackson Murray
Key Audit Partner
T: 0117 305 7859
E: jackson.murray@uk.gt.com

Liam Royle
Audit Manager
T: 0117 305 7687
E: liam.c.royle@uk.gt.com

Natalie Faulkner
Assistant Manager
T: 0117 305 7873
E: natalie.l.faulkner@uk.gt.com

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

https://www.grantthornton.co.uk/industries/public-sector/local-government/

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 2024

Financial Statements Audit

Wiltshire Council

In our last update to this committee, we indicated that we intended to present an Audit Plan for the audit of 2023/24 setting out our audit approach. We have appended this indicative audit plan to this report so that members are able to see what our risk assessment and planned programme of work would have normally been. However, following the statement made on 30 July 2024 by the Minister of State for Local Government and English Devolution, we no longer expect to complete the audit of the 2023/24 financial statements as planned. This statement and the subsequent draft legislation include a backstop date for 2023/24 audits of 28 February 2025 and the Key Audit Partner sent a letter to the Chair of this committee on 10 September 2024 explaining the potential impact of this. Your s151 officer has subsequently indicated that it is unlikely that draft accounts for 2023/24 will be available for audit early enough for sufficient work to be undertaken prior to this date, with focus remaining on completion of the 2022/23 drafts ahead of the 13 December 2024. It is therefore our expectation that our audit opinion for the 2023/24 financial statements will also be a disclaimer under the backstop arrangements.

It is our intention to return to completing audits as soon as possible and we are therefore keen to engage with officers on the approach to the 2024/25 financial statements. We are also conscious that the predecessor auditor raised a statutory recommendation in 2019/20 focused on the Council's overall control environment and ability to prepare materially correct accounts, and that addressing these findings forms an important part of our programme for both the accounts audit and the Value for Money reporting. We therefore intend to undertake a limited programme of work in order to begin rebuilding assurance in certain areas for the 2024/25 audit year. This work will include a high-level review of the findings in 2019/20 and progress to address these, limited testing of some sensitive balances such as cash, and understanding of key systems and processes. To date, despite spending significant time on the audit we have been unable to make significant progress.

Wiltshire Pension Fund

Work has continued on the audit of Wiltshire Pension Fund. We are not yet in a position to issue an Audit Findings Report and expect to present this to the next meeting of this committee. We have faced significant challenges this year due to the anticipated backstopping of the prior periods, which has required a significantly reduced headline materiality compared to what we would expect at a similar entity. This has considerably increased the time inputs required from both the audit team and the Pension Fund finance team. We expect to raise a significant fee variation of £15,000 for this year to reflect the additional work required. We will also raise a smaller variation of £3,765 as Wiltshire Pension Fund is a 'major local audit', which would ordinarily have been included in the scale fee by PSAA but was not in the 2023/24 scale fee for the Pension Fund. Any variations would be subject to consideration and approval by PSAA.

As members will be aware, we cannot sign the opinion of the Pension Fund until the audit of the Council as the administering authority is complete. We will also be unable to complete our procedures on the consistency of the accounts included in the Pension Fund annual report with the Council's accounts until the draft Council accounts are available.

The audits of both the Council and Pension Fund are dependent on the successful completion of an IT audit findings report by our IT audit team and in past progress reports we have noted significant delays in this work. We are now pleased to say that progress has been made and our IT audit colleagues expect to share a draft report with us shortly.

Progress at October 2024 (cont.)

Value for Money

We presented an interim Auditor's Annual Report to the 23 July 2024 meeting of this committee. In this report we concluded that there was a significant weakness in arrangements for financial sustainability as a result of the increasing Dedicated Schools Grant (DSG) deficit and raised a key recommendation in support of this. We also made improvement recommendations across the three reporting criteria. As indicated by the Key Audit Partner, this report remains interim until we are able to issue the audit opinion on the financial statements, which as detailed on the previous slide is now likely to be issued under the backstop arrangements in early 2024.

The report as presented in July did not conclude on whether there was a significant weakness in governance arrangements relating to the predecessor auditor's statutory recommendation in respect of the 2019/20 financial statements. As indicated on the previous page, we expect to undertake some work to address these findings and understand the progress that has been made; however, until we are able to complete a full financial statements audit is unlikely that we will be able to fully conclude in this area for 2023/24.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.	April 2024	Included as an appendix to this report
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	January/February 2025	Not yet due
Auditors Report This includes the opinion on your financial statements. As noted, we expect this to be disclaimed under backstop arrangements in 2023/24 as the Council has not produced draft financial statements in a timely manner.	January/February 2025	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	July 2024	Interim report issued as planned. Final report to be issued in early 2025 alongside financial statements audit opinion.

Appendices

Appendix A

Wiltshire Council Indicative Audit Plan

Year ending 31 March 2024

September 2024

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Your key Grant Thornton team members are:

Jackson Murray
Key Audit Partner
T 0117 305 7859
E jackson.murray@uk.gt.com

Liam Royle
Audit Manager
T 0117 305 7687
E liam.c.royle@uk.gt.com

Natalie Faulkner
Assistant Manager
T 0117 305 7873
E natalie.l.faulkner@uk.gt.com

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Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

As your new auditor, in planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September 2023 deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored some of the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers. We note that Wiltshire Council have not published audited financial statements since 2018/19. The most recent draft statements were for 2021/22 (published 20 September 2024). We understand from officers that work is in progress to produce and publish the statements for the 2022/23 financial year, with the expectation that the auditors for the financial years 2020/21 to 2022/23 will then issue a disclaimer of opinion under the 'backstop' arrangements intended to manage the backlog. The publication of the 2023/24 financial statements is also overdue.

Key matters

Changes in IT systems

The Council has recently migrated its financial reporting from SAP to Oracle Fusion, with the transition occurring in November 2023. We understand from officers that this is one step in the overall project with other functions such as payroll to be transferred at a later date, in April 2024. Due to the complexity of the Council's systems we have engaged our IT Audit colleagues to provide support in understanding the IT control environment at the Council, with a particular focus on the data migration and the completeness and accuracy of the transfer of the ledger to the new system. Given the significance of the system migration, we have included an additional significant risk as detailed on page 10.

Group consolidation

In 2019 the Council agreed to establish the 'Stone Circle' group of companies, consisting of Stone Circle Holding Company, Stone Circle Housing Company, and Stone Circle Development Company, as well as Stone Circle Energy Company (which is presently dormant). The group's activities relate to the purchase and rental of housing (Housing) or the purchase of land and development for sale or rental (Development). The group has been operating for a number of years, but due to the delay in preparing draft accounts since 2019/20 the Council has not yet had to prepare consolidated financial statements which incorporate the group companies. We understand from officers that the group companies are likely to be of enough significance to require consolidation in our year of audit (2023/24). It is possible that they may also require consolidation in earlier financial years, but in line with the commentary on Audit Reporting Delays (page 3) it is unlikely that these statements will be audited. As the 2023/24 consolidation will be the first one subject to audit, we have therefore included an additional significant risk relating to this.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan, has been agreed with the Director of Finance & Procurement.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance & Procurement quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Governance Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- As this is our first year of audit, we have not previously made recommendations to Council. However, we note the findings reported by Deloitte in their Audit Findings Report for 2019/20 presented to you on 7 February 2024, noting that an opinion on these financial statements has yet to have been issued. We will engage with Members and officers to follow up on the actions taken to address these recommendations.
- We will continue to provide you and your Audit and Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters - continued

Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council (and group). We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council (and group).
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– refer to page 9.
- We identified a significant audit risk relating to the data migration to the new ledger – refer to page 10. Our IT auditors will review whether the Council's process for ensuring the data migration was complete and accurate, and whether the new system is operating as designed.
- We identified a significant audit risk relating to the group consolidation – refer to page 15.

As we have reported to the Audit and Governance Committee we have been unable to complete all of our expected planning procedures in our original timetable and are therefore issuing an indicative audit plan based on our understanding to date. We will update this should it be needed once we have been able to complete our further planning procedures in support of a full risk assessment. We expect to undertake these in autumn 2024.

Prior year disclaimer

If the expected disclaimer of opinion is issued in the prior years as a result of managing the backlog, there may need to be an amendment to this plan. We will issue any such update once the government legislation and any additional guidance is issued.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Wiltshire Council ('the Council') and its group for those charged with governance.

Respective responsibilities

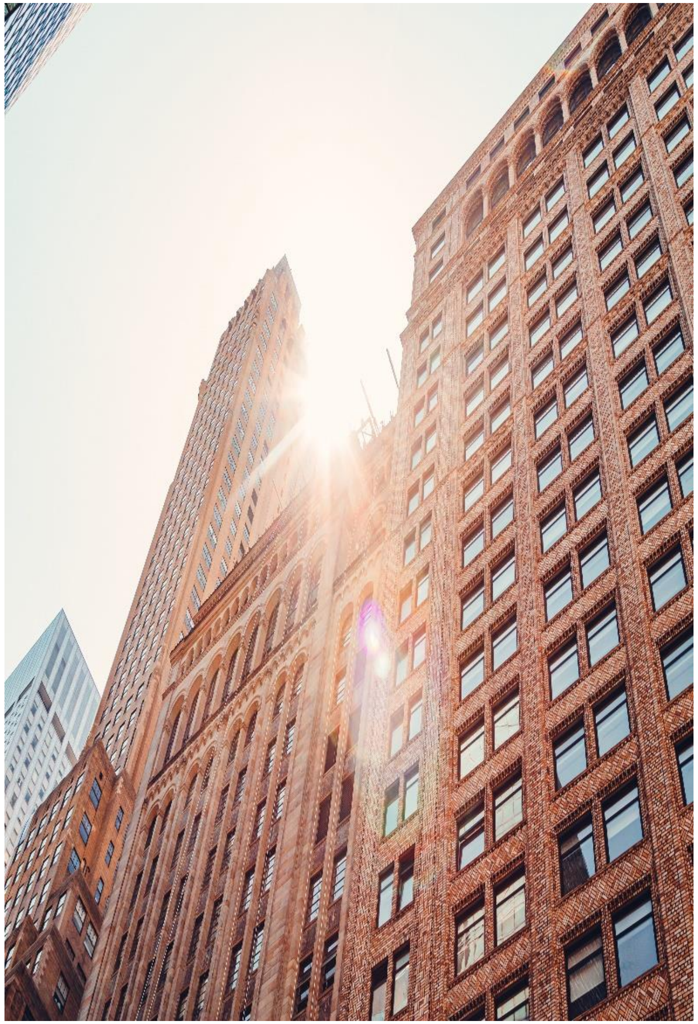
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Wiltshire Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Risk of fraud related to expenditure recognition PAF Practice Note 10 (completeness of expenditure and creditors);
- Valuation of land and building assets (including council dwellings);
- Valuation of investment property assets;
- Valuation of the defined benefit net liability;
- Management override of controls (journals);
- Group consolidation; and
- Completeness and accuracy of data transfer to the new financial ledger.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Dedicated Schools Grant – High Needs Block deficit; and
- 2023/24 Financial Statements - previous auditor's use of statutory powers in respect of the Council's control environment.

We will continue to update our risk assessment until we issue our final Auditor's Annual Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of the Stone Circle companies. Although the group has existed for a number of years,it is likely that 2023/24 will be the first year in which consolidated accounts will be subject to audit.

Materiality

We have determined planning materiality to be £12m for the Council, which equates to 1% of your forecast gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We will need to determine a materiality for the group, but we do not currently have sufficient information to do so. We will determine this materiality upon receipt of the draft financial statements. As there are no prior year draft financial statements available there are no specific unadjusted prior year misstatements. However, we have taken into account the findings of the most recent year for which audit work has been undertaken (2019/20) and the predecessor auditor's findings in this year as well as the delay in producing subsequent financial statements and reduced our performance materiality to 50%. Clearly trivial has been set at £0.75m.

Audit logistics

Our planning visit took place in March 2024. As outlined on page 6 we require additional time to complete our planning procedures and we will undertake a second planning visit in autumn 2024. We will determine the date of our audit fieldwork upon receipt of the draft financial statements. Our key deliverables are this Audit Plan, our Audit Findings Report, and our Auditor's Annual Report.

Our preference is for most our work to take place on site alongside your officers.

Our proposed fee for the audit will be £439,280, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue recognition risk	Group and Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. We therefore do not consider this to be a significant risk for Wiltshire Council. The revenue relating to the subsidiaries is likely to be immaterial and therefore is not considered to be a significant risk.
Risk of fraud related to expenditure recognition PAF Practice Note 10 – Completeness of expenditure and creditors	Group and Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).	We not have rebutted this presumed risk for the Council due to the weaknesses identified by Deloitte in their 2019/20 Audit Findings Report, specifically those relating to control over purchase orders and expenditure completeness. The completeness of expenditure is therefore a significant risk and we will perform audit procedures to understand and document the design and implementation of controls around accruals and whether the process of estimation is adequate to ensure that all relevant expenditure has been recorded in the appropriate period. We will review expenditure incurred after the year end to and test whether this has been treated appropriately and identify any potential under-accrual. The expenditure relating to the subsidiaries is likely to be immaterial and therefore is not considered to be a significant risk.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgments applied/made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates, or significant unusual transactions.
Data migration with new system implementation	Group and Council	There has been a new system implementation during the year. The Council migrated its financial reporting from SAP to Oracle Fusion in November 2023. We have therefore identified a significant risk in relation to the post-migration data completeness and accuracy and whether the system functionality of the new system is operating to design.	We will include specific procedures to address the risk in our IT audit strategy (see page 20).

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and building assets (other land and buildings)	Group and Council	The Council revalues its land and buildings on a rolling basis of not less than every three years to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant financial statements estimate by management due to the size of the balances involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2024. We have therefore identified the valuation of the closing balance of land and buildings as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; • engage an auditors' expert and undertake procedures to confirm that the group and Council's property, plant, and equipment balance has been included in the financial statements at an appropriate valuation; and • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and building assets (council dwellings)	Group and Council	The Council revalues its council dwellings on a rolling basis of not less than every five years to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant financial statements estimate by management due to the size of the balances involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2024. We have therefore identified the valuation of the closing balance of council dwellings as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; • engage an auditors' expert and undertake procedures to confirm that the group and Council's property, plant, and equipment balance has been included in the financial statements at an appropriate valuation; and • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment property assets	Group and Council	The Council revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant financial statements estimate by management due to the size of the balances involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the fair value as at 31 March 2024. We have therefore identified the valuation of the closing balance of investment properties as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and • engage an auditors' expert and undertake procedures to confirm that the group and Council's investment property balance has been included in the financial statements at an appropriate valuation

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council only	The Council's net defined benefit liability, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund liability is considered a significant estimate due to its size and the sensitivity of the estimate to changes in key assumptions. We have therefore identified the valuation of the Council's pension fund liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's net defined benefit liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope and the actuary's work; • assess the competence, capabilities and objectivity of the actuary who caried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Wiltshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Group consolidation	Group and Council	The Council owns three subsidiary companies, Stone Circle Holding Company, Stone Circle Housing Company, and Stone Circle Development Company, known collectively as the Stone Circle Group. Council officers have indicated to us that the assets of the group are now significant enough to require consolidation into the Council's accounts. A fourth company, Stone Circle Energy Company, was dormant in the 2023/24 financial year and will not be consolidated. We understand that the first consolidated statements will be prepared for the 2021/22 financial year, which is currently being drafted. However, it is probable that these will be disclaimed under the local audit backstop arrangements and therefore 2023/24 will be the first year in which consolidated statements are audited. We have therefore identified the group consolidation as a significant risk for the 2023/24 financial year.	We will: • gain an understanding of the processes and controls used by the Council to produce the group consolidation; • evaluate the accounting policies for the group, and the application of the group accounting policies to consolidated balances prepared under a different accounting framework (FRS 102); • test the accuracy and completeness of the consolidation adjustments; and, • review the work of component auditors of the subsidiary companies to understand any material impact on the consolidated entity.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Wiltshire Council	Yes	Audit of the financial information of the component using component materiality	See pages 9 to 15	Full scope audit performed by Grant Thornton UK LLP.
Stone Circle Holding Company	Yes	TBD	TBD	TBD. The Council has not previously prepared consolidated financial statements and the basis of consolidation is still being determined. We will therefore update our planned audit approach once we have an appropriate level of information to do so. The nature, time and extent of our involvement in the work of the component auditor (Hazelwoods LLP) will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component audit documentation and meeting with appropriate members of management.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and/or
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality for the Council at the planning stage of our audit is £12m. We have estimated your gross expenditure for the period based on uprating your expenditure in 2019/20 by the growth in your revenue budget during the period, and then determined materiality based on 1% of this figure. We have followed this approach as there were no audited accounts more recent than 2018/19 and no draft accounts more recent than 2019/20 at the date of our determination.	We determine planning materiality in order to: • establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • assist in establishing the scope of our audit engagement and audit tests; • determine sample sizes; and • assist in evaluating the effect of known and likely misstatements in the financial statements. We have not yet determined a materiality for the group audit as there were no previous consolidated statements available to base our determination on. We will determine materiality for the group as soon as appropriate information is available to do so.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified senior officer remuneration disclosures as an area where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £6,800 (1% of the total of the senior officer remuneration disclosure in the 2019/20 draft accounts).

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Governance Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting (until November 2023) Payroll	Design and implementation effectiveness
Oracle Fusion	Financial reporting (from November 2023)	Design and implementation effectiveness

In addition, due to the significant changes during the period, specifically the new system implementation, additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
Oracle Fusion	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	We will: • obtain an understanding of the process used for the new system implementation; and • perform an audit of data migration activity and results.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Dedicated Schools Grant (DSG) – High Needs Block deficit

The Council faces a significant challenge as the DSG deficit continues to increase year on year and the cumulative deficit is expected to reach £56.2m by the year end, an increase of £18.6m during 2023/24. The Council is currently working with the Department for Education within the Safety Valve Programme and has provided a plan which would bring the DSG into an in-year balanced position by 2028/29.

This deficit is a significant financial risk should the statutory override be removed, with the deficit having to be met from the Council's reserves in 2026/27.

2023/24 Financial Statements - previous auditor's use of statutory powers in respect of the Council's control environment

The Council's previous external auditor issued an adverse Value for Money conclusion in 2019/20, the last year of audit, due to pervasive and significant weaknesses in internal controls. They also issued a statutory recommendation as a result of this. The Council needs to address the 49 control weaknesses included in the previous external auditor's report to ensure it has a financial reporting system that allows it to meet its statutory responsibilities to produce reliable and accurate financial statements.

We reported our interim findings to the Audit and Governance Committee in July 2024.

Audit logistics and team

Planning and risk assessment

Audit & Governance Committee
23 April 2024
Audit Plan

Year end audit
September to December 2024

Audit & Governance Committee
TBC
Auditor's Annual Report

Audit & Governance Committee
TBC
Audit Findings Report

Audit opinion

Jackson Murray, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Committees and senior officers.

Liam Royle, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

Natalie Faulkner, Audit In-charge

Key audit contact responsible for the day-to-day management and delivery of the audit work

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2023, PSAA awarded a contract of audit for Wiltshire Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2023/24 audit is £426,730.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements;
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements; and
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Wiltshire Council Audit – PSAA scale fee	£426,730
ISA 315	£12,550
Potential impact of delayed 2022/23 audit opinion	TBC
Review of IFRS 16 preparation and accounts disclosures ahead of implementation in 2024/25	TBC
Auditor's expert (property valuations)	TBC
Group audit	TBC
Total audit fees (excluding VAT)	£439,280

Previous year

In 2022/23 the scale fee set by PSAA was £128,913. The actual fee charged for the audit is yet to be determined as the work is not yet complete. Grant Thornton UK LLP were not the appointed auditor for periods prior to 2023/24.

If the opinion on the 2022/23 (and prior years beginning 2020/21) audit is disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets; and
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating).

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures;
- application of judgment and estimation;
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes; and
- systems to capture the process and maintain new lease data and for ongoing maintenance.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries as to the Council’s planned approach to the implementation of the standard. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)]

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council. We will make such inquiries of any component audit firms as part of our group audit instructions.

Other services

No other services provided by Grant Thornton were identified.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We have not performed any such services for the group or Council.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Appendix B

Update on the backstop for audited bodies

10 September 2024

To Audit and Governance Committee Chair
Wiltshire Council

Dear Cllr Wallis

Wiltshire Council: An update on the application of the local authority backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament Written statements - Written questions, answers and statements - UK Parliament This confirm the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024. A backstop date for 2023/24 is proposed of 28 February 2025.

In this letter, I set out more details of the approach Grant Thornton plans to take in respect of the backstop, and how this is likely to impact your authority. I should be happy to discuss this further including at the next Audit and Governance Committee.

Applying the backstop for years up to 2022/23

Grant Thornton have taken over as your auditor from financial year 2023/24. We understand that your previous auditor Deloitte has not completed the audits for years 2019/20 to 2022/23. Our understanding is that Deloitte intends to issue a disclaimer opinion in respect of 2019/20, and backstop opinions in respect of years 2020/21 to 2022/23. Please do liaise with Deloitte to ensure that you have agreed with them the next steps. This should include arrangements for the publication of the draft statements, for meeting the rights of local electors, and for receiving the draft Auditor's Report. We set out below the implications a backstopped audit opinion is likely to have on our 2023/24 audit.

The recovery period – 2023/24 and onwards

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026.

As part of our commitment to supporting the recovery period we have already begun planning work on your financial statements audit for 2023/24. As reported to the Audit and Governance Committee, progress on this work has been slower than we would have expected with responses not coming in a timely manner to some of our requests.

Update on the backstop for audited bodies (cont.)

The fact that previous audits are likely to be disclaimed brings with it a number of challenges. Not least of these is the fact that we will not have assurance over the opening balances in the financial statements for 2023/24. In addition, there are risks that the allocation of funds between different reserves could be misstated, and also that prior year errors in areas such as the Minimum Revenue Provision could have gone undetected.

Our intention is that over time we will re-build assurance in respect of prior years. The NAO and FRC are currently working on guidance to support auditors and we will update you as and when this is received.

The Council still needs to publish draft financial statements for the financial years 2021/22 to 2023/24. If the Council does not publish these shortly, then Deloitte will be unable to issue their backstop disclaimer opinions for 2021/22 and 2022/23 by 13 December 2024 and we will be unlikely to complete an audit of 2023/24, resulting in another backstop disclaimer for 2023/24. We have requested the Council's timetable for production of these outstanding accounts and have yet to be provided with one. The Council has a statutory responsibility for the publication of draft financial statements which it is failing to meet. Prior year audits remaining open does not remove this statutory responsibility upon the Council and it must put in place appropriate arrangements to rectify this matter swiftly.

Should the Council publish its draft statements shortly, recognising that the next backstop date is set for 28 February 2025, our intention is to prioritise (amongst other things) the following areas:

- risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment;
- audit of closing balances as at 31 March 2024;
- audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing;
- testing of journals within 2023/24;
- testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance);
- review of financial statements disclosures; and
- recognising the sensitivity of cash, we propose to look at the opening cash position as at 1 April 2023.

Our current aim is to be able to complete the above work by the proposed backstop date for 2023/24 of 28 February 2025. We will provide an Audit Findings Report to those charged with governance setting out the findings from our work and any key outcomes. We have already reported interim Value for Money findings to the Audit and Governance Committee in July 2024.

Update on the backstop for audited bodies (cont.)

At this stage, given the inherent challenges outlined above, we consider that it is unlikely to be possible to undertake sufficient audit work by 28 February 2025 that would enable us to regain full assurance on opening balances.

The consequence of this is that there is a strong possibility audit year 2023/24 will be disclaimed in respect of opening balances. We are working with the NAO and FRC to identify the best way to regain full assurance and return to a clean opinion as quickly as possible over the coming years.

We will keep you updated on the progress of our work. Do please ensure that a suitable Audit Committee date is arranged in advance of the 2023/24 backstop date of 28 February 2025.

For the audit of your Pension Fund, our focus will be on movements in year and closing balances, rather than opening balances. As Pension Fund assets are revalued annually, and there is not the same inherent challenge in respect of usable reserves that we face for a local authority audit, we envisage that it should be possible to return to a clean audit opinion by 2025/26. Years 2023/24 and 2024/25 are likely to be qualified in respect of opening balances and comparative figures respectively.

Looking ahead

We recognise these are unusual and difficult times for all authorities that will be subject to the backstop. We believe that public confidence is best enabled by returning to a position of timely audit reporting and clean opinions as soon as possible. We will work actively with you and others in the sector to do our best to achieve this.

Yours sincerely

Jackson Murray

For Grant Thornton UK LLP

Sector update

Ending the local audit backlog

A plan for restoring timely assurance to the Local Government audit system was announced by the Minister of State for Local Government and English Devolution on 30th July 2024.

When parliamentary time permits, secondary legislation is going to be used to amend the Accounts and Audit Regulations (2015) and to introduce five new backstop dates:

1. Financial years up-to-and-including 2022/23: 13 December 2024;
2. Financial year 2023/24: 28 February 2025;
3. Financial year 2024/25: 27 February 2026;
4. Financial year 2025/26: 31 January 2027;
5. Financial year 2026/27: 30 November 2027; and
6. Financial year 2027/28: 30 November 2028.

Paul Dossett, Grant Thornton Partner and Head of Local Government, has had an article published in The MJ, where he reviews the reasons for the delays in audited accounts and considers what is required for a long-term solution:
https://www.themj.co.uk/beyond-the-local-audit-backstop

Key messages from the Minister are that:

For financial years up to and including 2022/23, if financial audits are not complete by 13 December 2024, disclaimed or modified opinions will be required. The Minister recognises that in most cases these may remain in place for up to two years.

The Minister's statement is, however, "crystal clear" that where there are modified opinions for financial accounts, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations, and to issue Public Interest Reports, will still be a high priority.

There will be some limited grounds for exemption to meeting the audited accounts backstop dates: Where auditors are considering a material objection; where recourse to the court could be required; or from 2023/24, where the auditor is not yet satisfied with the body's Value for Money arrangements. Nevertheless, Councils need to be aware that the Government intends to publish a list of bodies and auditors that do not have an exemption and yet still do not meet the proposed new dates.

To help Councils comply with these arrangements, for financial years 2024/25 to 2027/28, the Minister states that the deadline for filing Category 1 'draft' (unaudited) accounts will be extended from 31 May to 30 June (allowing higher quality draft accounts); and there will be no routine inspections of local audits (by the Financial Reporting Council or by the Institute of Chartered Accountants in England and Wales) for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so.

Once implemented, the hope is that the new arrangements will help to restore the robust assurance needed to underpin good governance and accountability.

For the full statement, see Written statements - Written questions, answers and statements - UK Parliament.

Lessons from recent Auditors' Annual Reports

In July 2024, Grant Thornton shared findings from a review of just under 100 recent Auditors' Annual Reports (AARs), covering around 30% of all Councils in England. With around 730 different areas for improvement identified, the AARs highlighted five key areas where local government is facing increased challenge:

1. Transformation and saving plans;
2. The Dedicated Schools Grant;
3. Financial governance and internal control;
4. Performance management and procurement; and
5. The Housing Revenue Account.

To help Councils with their challenge, Grant Thornton's Lessons report summarised suggestions for improvement into a single checklist for success.

Key questions for Audit Committees from the checklist for success:

- External audit recommendations – are we up to date with monitoring progress and implementation and prior year recommendations?
- Savings and reserves – is our medium-term financial plan up to date?
- Special educational needs and disability – are we on track with arrangements to close any deficit?
- Workforce – do we have an up-to-date strategy?
- The Housing Revenue Account – when did we last review the strategy and arrangements for governance and internal control?

Even before the July 2024 general election, local authorities were key to delivering nationally important policies. Under the new government, the sector looks likely to play an even more pivotal role as, for example, proposed reforms to planning and housebuilding get underway. Audit Committees can use the Grant Thornton checklist for success to assess how ready their organisation is to take advantage of the new opportunities likely to open-up and to step into the new, higher profile role they are likely to be invited to play.

For a full copy of the report, see Lessons from recent auditor's annual reports (grantthornton.co.uk)

Learning from the new unitary councils

In September 2024, Grant Thornton published findings from Auditors' Annual Reports for eight unitary councils created since 2019 (or, where relevant, from Auditors' Annual Reports for their predecessor councils).

Grant Thornton's report includes a series of key messages for Councils who may be facing local government re-organisation in the future, including:

During the transition period

Appoint shadow authority roles as soon as possible;

Allocate adequate resources to planning and transformation;

Consider how to reduce legacy staff capacity.

Financial sustainability

Have a finance team in pace at the start;

Understand the legacy reserves position early.

Governance

Prioritise the production of legacy accounts;

Don't underestimate the complexity of internal audit.

Effectiveness, economy, efficiency

Develop a performance management framework early; and

Put in place clear strategies.

For a full copy of the report and the key messages within it, see Local government reorganisation: Lessons from new unitaries.

"Local government re-organisation is here to stay…..(but) ….. One size does not fit all, and local government is no exception".

Code of practice on good governance

In June 2024, SOLACE, CIPFA and Lawyers in Local Government (LLG) jointly published a new code of practice on good governance. The code provides advice and sets expectations for the three highest profile statutory roles in local government – the Head of Paid Service, the Chief Finance Officer, and the Monitoring Officer. The aim of the code is to enable these three high profile officers to effectively work together in a 'Golden Triangle' - to best advise members, implement decisions, and help achieve good outcomes.

This is a powerful publication because it is the first in which SOLACE, CIPFA and LLG have spoken as one voice. Whilst the Seven Principles of Public Life, or Nolan Principles, apply to all public office holders (and indeed all those in other sectors delivering public services), expectations of the three most senior statutory officers in Councils go further. The fact that this guide is targeted specifically at their three roles is therefore more than welcome.

The new code of practice sets out seven standards the "Golden Triangle" officers should comply with, alongside a series of more direct requirements they should adhere to. The code provides guidance to the three officers concerned; can be used to explain their roles more clearly to others; and provides context for conversations about the roles, the requirements, and actions to be undertaken.

Questions Audit Committees can use the code to ask themselves surround: Do we understand what our most senior officers do? And do they understand the standards they are bound by?

For a full copy of the Code of Practice, see Code of Practice on Good Governance for Statutory Officers June 2024.pdf (solace.org.uk)

The seven standards of the Golden Triangle are:

Understand Governance

Roles and responsibilities

Act Wisely

A duty of enquiry & the exercise of statutory functions

Lead Ethically

The Seven Principles of Public Life

Act Effectively

Robustness in working arrangements

Resource the Roles

Get the tools to do the job

Build Resilience

Deputies and development

Deliver sound decision making

The outcome of good governance

Internal Audit - supporting a healthy service

The Chartered Institute of Internal Auditors (CIIA) published an assessment of the health and status of internal audit within local government in July 2024, using research based on survey findings from 44% of all councils in the United Kingdom and Northern Ireland. The findings were stark and could make worrying reading for any Audit Committee, as survey responses unveiled:

- Fear of speaking out about key findings, including around financial sustainability;
- Difficulty in discussing financial assurance matters with Audit Committee members in public meetings;
- Lack of member understanding of the work of internal audit; and
- Insufficient staffing and inability to recruit to vacant posts, affecting completion of the Internal Audit plan.

New Global Internal Audit Standards (GIAS) are due to come into effect in January 2025 and can be adopted now if entities wish. They include considerations specifically for the public sector.

Respective responsibilities for members and management around supporting, overseeing, and resourcing the internal audit function can be found in the CIIA report.

Audit committees and senior management in local government should consider whether any of the findings are relevant to their organisation and, if so, consider using the transition to the new GIAS as an opportunity to challenge and revisit their practices.

For a full copy of the Institute's findings, see An evaluation of the health of internal audit in local authorities.pdf (iia.org.uk)

Summary of respective responsibilities to provide:

Support:

Audit committee

Champion the internal audit function.

Senior management

Support recognition of the function throughout the organisation.

Oversight:

Audit committee

Gain an understanding of Internal Audit findings.

Discuss any disagreements with the Chief Executive and senior management.

Senior management

Assist members in understanding the effectiveness of the organisation's governance, risk management and control processes and escalate to members any matters of importance.

Resources:

Audit committee

Discuss the sufficiency of resources, both in numbers and capabilities, at least annually.

Senior Management

Engage with members to provide sufficient resources and resolve any issues around resourcing.

Annual review of local government complaints

The Local Government and Social Care Ombudsman's latest Annual Review of Local Government Complaints was published in July 2024.

The review shows that nationally, there has been an increase in the number of complaints received, an increase in the number of complaints upheld, and ongoing issues within special educational needs; housing; and adult social care services.

The review argues that complaints can be seen as a valuable source of information, and it encourages councils to use complaints information to identify early warning signs of service failure. It includes best practice resources to help councils take valuable learning from complaints, including a performance map and data tables.

Readers are advised by the review to consider, using the interactive data for those councils they are interested in:

- Uphold rates;
- Suitable remedy rates;
- Compliance rates; and
- The nature of service improvement recommendations made.

Councils should bear in mind that since April 2024 **new** overview and scrutiny: statutory guidance for councils, combined authorities and combined county authorities recommends that scrutiny committee work programmes are informed by the reports and recommendations issued by the Ombudsman.

For a full copy of the Ombudsman's Annual Review, see Annual Review of Local Government Complaints.

Homelessness and housing targets

The National Audit Office (NAO) published a report in July 2024 on the effectiveness of government in tackling homelessness.

The report noted that homelessness is now at the highest level since comparable data collection began in the early 2000s, despite local government spending on homelessness services having more than doubled since 2010/11. The report also noted that a co-ordinated government response is difficult because there was, at the time of writing the report, no strategy or published target for statutory homelessness; and, again at the time of writing the report, the Department for Levelling Up, Housing and Communities had limited power to influence other government departments' decisions on cross-cutting matters that can affect homelessness services.

The National Audit Office argued that homelessness funding is fragmented and generally short-term, inhibiting homelessness prevention work and limiting investment in good-quality temporary accommodation or other forms of housing.

New housebuilding targets announced by the new government on 30th July may help, but consistent funding and a move away from short termism and a clear strategy are also going to be essential levers that national and local government are now going to have to develop.

For a copy of the National Audit Office report, see the effectiveness of government in tackling homelessness (nao.org.uk).

For the government's new housebuilding targets, see Housing targets increased to get Britain building again - GOV.UK (www.gov.uk)

£2.44bn

Spent by local government in 2022/23 on homelessness services

60%

Proportion of local government 2022/23 total gross expenditure on housing services (excluding that relating to their own housing) that was used to deal with homelessness, up from 25% in 2010/11

15

Cross-government boards that have a remit relevant to homelessness

New approaches needed to key educational issues

Two recent reports highlighted weaknesses in the educational system that councils have to work with. Both include recommendations for the new government, intended to give disadvantaged children and children with special educational needs and disabilities better outcomes for the money spent.

On 23rd July 2024, the National Audit Office (NAO) published its report on Improving educational outcomes for disadvantaged children (nao.org.uk), noting that disadvantaged children include those who are currently, or have previously been, looked after by the council.

The report highlighted that the government spends an estimated £9.2 billion on supporting disadvantaged children and narrowing the attainment gap between them and their peers, but that disadvantaged children still perform less well than their peers across all areas and across all school phases.

Two days later, on 25th July, the ISOS Partnership published an independent report commissioned by the County Councils network and the Local Government Association showing that educational attainment amongst children with special educational needs and disabilities (SEND) has not improved since 2014, despite councils being projected to spend £12 billion on these services by 2026 (compared to £4 billion a decade ago).

Going forward for SEND, local government could play a pivotal role in delivering any changes of policy. It is important for members to be aware of the changes that could happen in future. The ISOS partnership recommends that the new government:

- Invests in building capacity in mainstream schools to meet children's needs, such as therapists, educational psychologists, and wider inclusion support, helping to reduce the reliance on specialist school places;
- Resets the vision and guiding principles of the SEND system towards inclusion, prevention and earlier support which would cater for young people who do not have a statutory plan, with such plans reserved for the most complex cases;
- Provides a new 'national framework' for SEND;
- Establishes 'Local Inclusion Partnerships' to enable more effective assessments, commissioning and collaboration between councils, schools and health; and
- Creates a National Institute for Inclusive Education as an independent arbiter around inclusive education and support for children and young people with additional needs.

National Audit Office

isos partnership

CCN
COUNTY COUNCILS NETWORK

Local Government Association

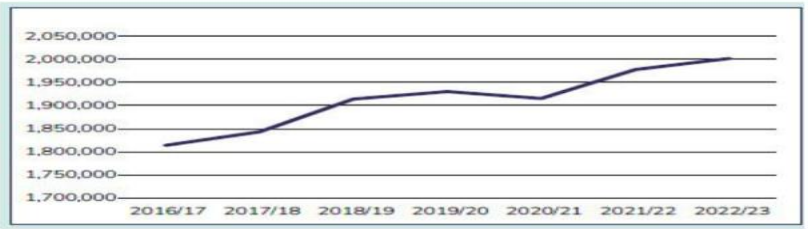
Demand management for social care

In July 2024 CIPFA published a guide to managing rising demand in adult and children's social care, drawing on lessons from nineteen different English councils.

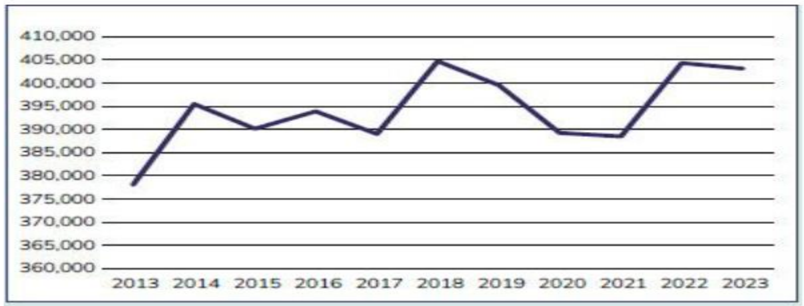
Having highlighted that requests for adult social care and the number of children in need are both rising, CIPFA shared examples of good practice around:

- Adult Social Care – Market management; transitions; transformation and innovation; and
- Childrens' Social Care - Market management; transitions; transformation and innovation.

<u>Rise in the demand for adult social care support for new clients:</u>



<u>Rise in the number of children in need:</u>



The report shows the importance of strong corporate and leadership buy-in; utilising funding and resources from diverse sources; focusing on improving outcomes; making use of monitoring, forecasting and benchmarking tools; and investing in preventative action. However, CIPFA also highlighted the specific contributions that innovative finance professionals can make:

- Financial oversight, analysis and management;
- Grant and resource management;
- Compliance, reporting and risk management;
- Evidence-based decision making and communication;
- Monitoring, forecasting and benchmarking;
- Strategic thinking;
- Funding maximisation;
- Business case and scenario planning;
- Sustainable commissioning; and
- Data utilisation, monitoring and evaluation.

The examples of proactive work by professionals from across the nineteen councils show how co-operation can make a real difference. For more details on the report, see Managing rising demand in adult and childrens social care (cipfa.org).

The social landlord role – what can councils do better?

The Housing Ombudsman published its latest Insight Report in July 2024: Insight report - Issue 17 (housing-ombudsman.org.uk)

The report focused on London – noting that 47% of the cases determined by the Ombudsman in 2023/24 were from residents living in a London postcode, despite the fact that just under one in six homes in the Ombudsman's membership is located within Greater London.

No other region of England has such a wide gap between the proportion of social housing and complaints, but the Ombudsman noted that outside Greater London, other councils and landlords should also take note of the recommendations and learning points, especially in other urban areas, as they provide vital indicators of where things go wrong and how to stop that from happening.

The report recommends that landlords:

- Foster a positive complaints culture - leadership and governance should be seen to support the complaints' function, including promoting internal cooperation and engagement with the complaints process;
- Don't lose sight of the person at the centre of a complaints issue – try to ameliorate the impact of issues outside the landlord's full control and avoid blame. Be clear about landlord responsibilities where resolution involves dealing with third parties;
- Show that the resident's experience is important – ensure that details are taken and recorded appropriately so that residents feel listened to; the right solution is found to resolve the issue swiftly; and the communication to the resident is courteous and accurate;
- Remember that complaint handling is a landlord's opportunity to regain a resident's trust after they have had a bad experience; and
- Use insight and intelligence from complaints strategically. This ranges from effective root cause analysis of casework through to identifying risks and horizon scanning.

The report makes good reading for members looking to better understand how they can help to stop things going wrong in the council's relationship with residents.

Devolution

On 16th July 2024, the new Deputy Prime Minister wrote **a** [Letter to Local Leaders] setting out the new government's ambition to:

- Devolve new powers over transport, skills, housing, planning and employment support;
- Provide more regions with integrated settlement and with access to financial flexibility;
- Move away from a deal-based approach, "setting out clear conditions and a clear offer in return for places seeking devolution agreement"; and
- Enshrine a presumption towards devolution, so that places can take on new powers automatically if they meet certain conditions.

In the English Devolution Bill one day later, the government started arrangements to legalise a new devolution framework; address within it growth drivers such as employment and planning; and make devolution the "default setting".

How and when the details of the new devolution revolution will work remains to be seen, but the Deputy Prime Minister has made it clear that new arrangements will be tailored to sensible economic geographies so that local leaders can act at the scale needed to effectively deploy their powers. In most cases that will require councils to come together in new combined authorities. Councils are now encouraged to begin discussions with their neighbouring authorities on this basis.

Members will need to start asking themselves both how ready their organisation is, and how ready their neighbours are.

Ministry of Housing, Communities & Local Government

Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

Public Sector Internal Audit Standards
https://www.gov.uk/government/publications/public-sector-internal-audit-standards

Code of Audit Practice for local auditors (NAO):
https://www.nao.org.uk/code-audit-practice/

Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/

The Three Lines of Defence Model (IAA)
https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf

Risk Management Guidance / The Orange Book (UK Government):

https://www.gov.uk/government/publications/orange-book

CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

Audit Committees: Practical Guidance For Local Authorities And Police

https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition

Delivering Good Governance in Local Government

https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition

Financial Management Code

https://www.cipfa.org/fmcode

Prudential Code

https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition

Treasury Management Code

https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition

Grant Thornton

grantthornton.co.uk