

# Audit Progress Report and Sector Update

Allerdale Borough Council  
Year ending 31 March 2020

September 2020



# Contents

<b>Section</b>	<b>Page</b>
Introduction	3
Progress at September 2020	4
Audit deliverables	9
Sector update	19

---

# Introduction

---



**Gareth Kelly, Engagement Lead**

T 0141 223 0891  
E [gareth.kelly@uk.gt.com](mailto:gareth.kelly@uk.gt.com)



**Richard Anderson Engagement Manager**

T 0141 223 0753  
E [richard.j.anderson@uk.gt.com](mailto:richard.j.anderson@uk.gt.com)

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

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

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

# Progress at 21 September 2020

## 2019/20 Financial Statements Audit

The table below sets out our progress on the audit as at 21 September 2020.

Significant risk	Planned approach	Progress
<b>Covid- 19</b> The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020.	<b>We will:</b> <ul style="list-style-type: none"><li>• work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach;</li><li>• liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;</li><li>• evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;</li><li>• evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;</li><li>• evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances;</li><li>• evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li><li>• discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li></ul>	<b>We have:</b> <ul style="list-style-type: none"><li>• have worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported;</li><li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; and</li><li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; and</li></ul> <b>We are:</b> <ul style="list-style-type: none"><li>• obtaining sufficient audit evidence through remote technology;</li><li>• evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;</li><li>• evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li><li>• discussing with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li></ul>

Significant risk	Planned approach	Progress
<p><b>Fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted</p>	<p>We have not identified any changes to our assessment reported in the audit plan.</p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk and unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals; and</li> <li>• analysed the journals listing and determined the criteria for selecting high risk and unusual journals.</li> </ul> <p>We are in the process of:</p> <ul style="list-style-type: none"> <li>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied made by management and considering their reasonableness with regard to corroborative evidence; and</li> <li>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

Significant risk	Planned approach	Progress
<p data-bbox="114 244 510 276"><b>Valuation of land and buildings</b></p> <p data-bbox="114 308 622 403">The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually.</p> <p data-bbox="114 435 622 595">These valuations represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p data-bbox="114 627 622 882">Additionally, for land and buildings, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.</p> <p data-bbox="114 914 622 1106">We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p data-bbox="645 244 741 276">We will:</p> <ul data-bbox="645 292 1323 850" style="list-style-type: none"> <li data-bbox="645 292 1323 387">• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li data-bbox="645 403 1323 467">• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li data-bbox="645 483 1323 547">• discuss with the valuer the basis on which the valuation was carried out;</li> <li data-bbox="645 563 1323 643">• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li data-bbox="645 659 1323 722">• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li data-bbox="645 738 1323 850">• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p data-bbox="1352 244 1471 276">We have:</p> <ul data-bbox="1352 292 2112 419" style="list-style-type: none"> <li data-bbox="1352 292 2112 355">• evaluated the competence, capabilities and objectivity of the valuation expert; and</li> <li data-bbox="1352 371 2112 419">• written to the relevant valuer to confirm the basis on which the valuation was carried out.</li> </ul> <p data-bbox="1352 435 1648 467">We are in the process of:</p> <ul data-bbox="1352 483 2112 898" style="list-style-type: none"> <li data-bbox="1352 483 2112 579">• challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li data-bbox="1352 595 2112 691">• evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li data-bbox="1352 707 2112 770">• testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li data-bbox="1352 786 2112 898">• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

Significant risk	Planned approach	Progress
<p><b>Valuation of pension fund net liability (Council)</b></p> <p>The pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• 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; and</li> <li>• 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</li> <li>• obtain assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension scheme and the scheme assets valuation in the pension scheme financial statements.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; and</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> </ul> <p>We are in the process of:</p> <ul style="list-style-type: none"> <li>• assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• testing 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; and</li> <li>• undertaking 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.</li> </ul>

---

## Other risks identified

In our 2019/20 Audit Plan we identified a risk in relation to the implementation of IFRS 16 Leases which was to be adopted from 1 April 2020. Due to the pandemic the implementation of IFRS 16 has been delayed by a year. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 even though implementation is deferred to 2021/22 and we are agreeing the required disclosures with management.

---

## Other audit areas

In addition to our work on the significant risks, work is also in progress in the following areas:

- PPE additions
- In-year depreciation
- Cash
- Expenditure (including welfare expenditure)
- Employee benefits
- Debtors and bad debt provision
- Creditors
- Leases
- Reserves
- Financial instruments, investments and borrowings
- Provisions
- Financial statements disclosures
- Related parties

## Value for Money

Our risk assessment regarding your arrangements to secure value for money identified the following VFM significant risks;

- Financial sustainability
- Waste and recycling contract and procurement arrangements
- Workington Community stadium.

Our work in relation to these risk areas is underway and we will report findings in our audit findings report.

# Audit deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20.	March 2020	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	July 2020	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the November Audit Committee.	November 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	December 2020	Not yet due

---

# Sector update

---

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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

A teal rectangular button with the text "Public Sector" in white.

Public Sector

A purple rectangular button with the text "Local government" in white.

Local  
government

# Covid-19 and Local Government

Public services have been at the forefront of the emergency response to the Coronavirus (Covid-19) including local government. Very few local government services have not been impacted by the Covid-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to Covid-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

Covid-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

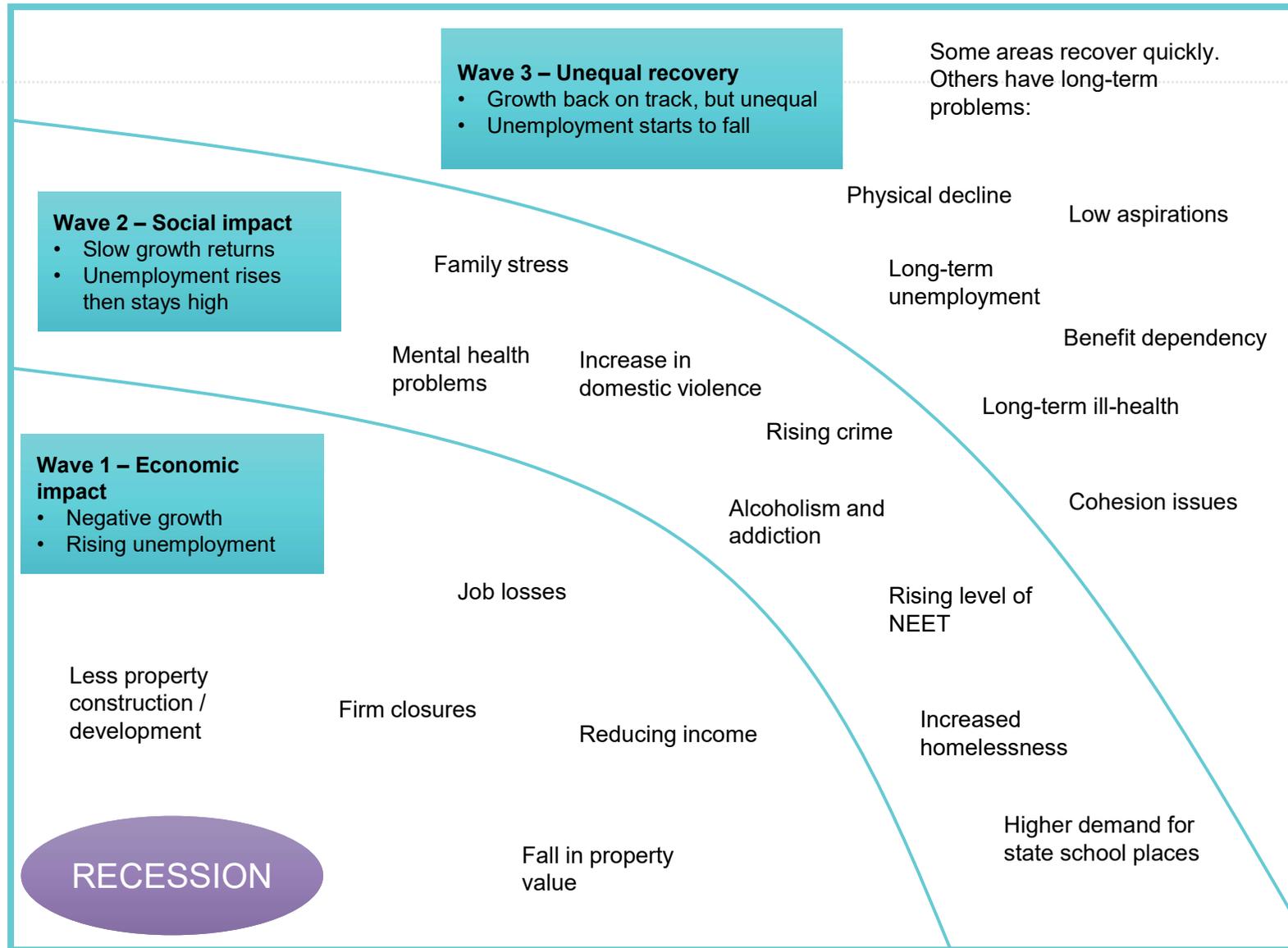
Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of Covid-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by Covid-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of Covid-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of Covid-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from Covid-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of Covid-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from Covid-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

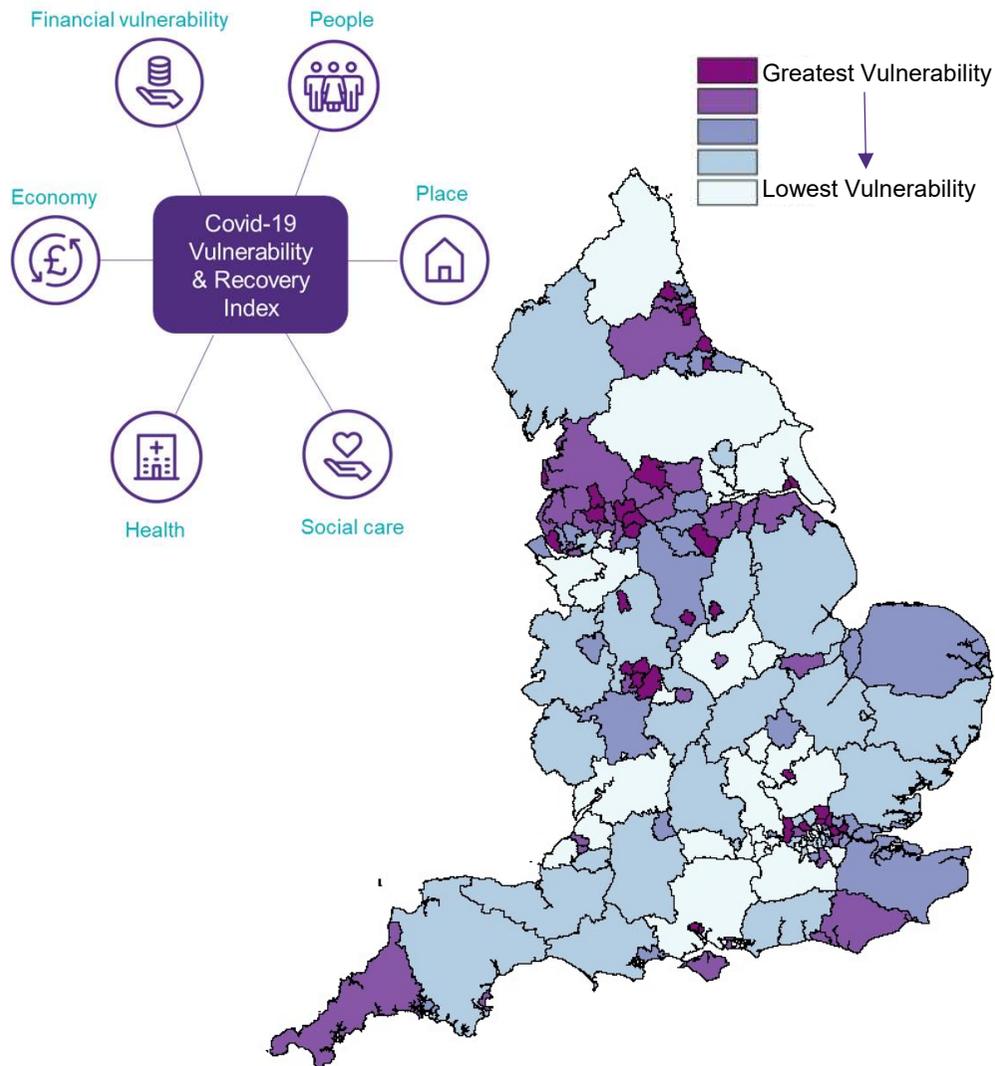
# Can we learn from previous recessions?



Source: Audit Commission

# Covid-19 Vulnerability Index

## Overall Index (including Financial Recovery basket)



# Scenarios and hypotheses

## Local authority areas in 12-24 months?

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

---

# What strategy is needed in response?

---

## *From response to recovery*

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

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

## *Mitigating the worst case*

### **Consolidate and build resilience**

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

## *Steering towards the best case*

### **Invest in renewal**

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

# Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and to existing government priorities such as levelling up, whilst future proofing against Covid-related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development.	Recovery plan implementation.
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release.
Planning for standing up closed services.	Place-based leadership – working with other public services, private and third sector to redefine place.
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising.	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability.	More long-term and strategic partnerships and funding models for third sector.
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line.	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs.
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions.	Review and update Local Plan.
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments.
Renewed strategic financial planning and focus on financial management.	Emergency planning reviews and learning.
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning.
Government monitoring regime on additional funding for councils and Covid funding administered by councils.	Increase in outcomes based procurement and focus on social value.
Business cases for new investments or for Government.	Significant investment in digital capabilities – channel shift, remote working, etc.
HR capacity and welfare, building health and safety checks.	

