



# Audit Committee Progress Report – July 2020

Ashfield District Council  
Year ending 31 March 2020





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# 1. SUMMARY

## Purpose of this report

This report provides the Audit Committee at its July 2020 meeting with an update on progress in delivering our responsibilities as your external auditor for Ashfield District Council.

The 2019/20 Audit Strategy Memorandum was issued and presented at the February 2020 Audit Committee. This report provides updates to those documents where necessary.

## Financial Statements Audits

The changes to working arrangements during the COVID-19 'lock-down' period and other pressures in the local government sector has lead to a number of changes to the audit approaches.

- Remote working - Mazars moved to working remotely on 16 March 2020. So far these arrangements have worked reasonably well at our clients and the systems in place for sharing information between clients and ourselves have operated as expected. We expect to need to continue to operate on this remote basis throughout the upcoming audits and for the near future, including the reporting and closure stages of the audit. We will continue to work with management to deal with any practical difficulties in delivering the audit as the work progresses.
- Timetable changes – there have been significant changes to the statutory timetable for the 2019/20 accounts preparation and publication. The statutory deadlines for the publication of the draft and audited financial statements have been changed to 31 August (from 31 May) and 30 November (from 31 July) respectively. We have agreed with management changes to the scheduling of our work to accommodate the new timetable (where applicable). The majority of the audit work will now take place in June and July as expected, based on the draft financial Statements being produced by 15 June, which was met. We plan to submit our Audit Completion Reports to the October Audit Committee meeting and issue the Auditor's Report before the end of October. This timetable is dependent on a number of factors and we will update to Audit Committee if any changes are required.
- Financial Reporting Issues – a number of key financial reporting issues as a result of the COVID-19 pandemic have emerged over recent weeks. CIPFA's Bulletin 05 on the Closure of the 2019/20 Financial Statements summarises the key points to consider and we have included a summary of the Bulletin at Appendix 2 to this report. These points will be discussed with management and considered throughout the audit process.

We have included at Section 2 of this report a summary of the current position on the audit risks and other reporting requirements set out in our 2019/20 Audit Strategy Memorandum. We will report further on these matters in our Audit Completion Reports to the Audit Committee in October 2020. We have included an updated Communications and Timeline summary at Appendix 1.

## Value for Money Conclusion

In our Audit Strategy Memorandum we reported that we identified a total of 2 significant risks for the 2019/20 financial year. These being; Financial Sustainability in regards to the sustainable resource deployment criteria and Commercialisation of Investment Properties Strategy in regards to the informed decision making criteria.

We keep our assessment up to date and before concluding on the work take into account any matters which come to our attention through the course of our audit which may affect our reporting.

Our work is currently on going in respect of these areas, and we will report any findings to members as part of the October committee.

NAO's updated guidance clarifies that auditors should generally consider local bodies' arrangements and their response to the COVID-19 pandemic as part of their 2020/21 work on VFM arrangements. Only where there is a clear indication of a significant failure of arrangements during the 2019/20 as a result of COVID-19 would it be appropriate to raise a 2019/20 significant VFM risk. We have not identified any significant failures in the Council's arrangements during 2019/20 and are satisfied that no additional significant VFM risks have been identified.

## 2. AUDIT PROGRESS

This section includes a summary of the significant risks reported in the 2019/20 Audit Strategy Memorandum for the Council and updates based on the audit work carried out to date. We will report the final position on this matters in our Audit Completion Reports to the October Audit Committee.

### Significant Audit Risks

	Description of risk	Planned response	Update July 2020
1	<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>
2	<p><b>Property, plant and equipment valuation</b></p> <p>Land and buildings are a significant balance on the Council's balance sheet.</p> <p>The valuation of land and buildings is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers:</p> <ul style="list-style-type: none"> <li>- HRA Council Dwellings</li> <li>- Investment Properties</li> <li>- Other PPE related assets</li> </ul>	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> <li>• critically assess the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li> <li>• consider whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;</li> <li>• assess whether valuation movements are in line with market expectations by using third party information provided by Gerald Eve to provide information on regional valuation trends;</li> <li>• critically assess the treatment of the upward and downward revaluation movements in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;</li> <li>• critically assess the approach that the Council adopts to ensure that assets are not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and</li> <li>• test a sample of items of capital expenditure, disposals and reclassifications (where balances are material) to confirm that the amounts used and accounting treatment applied is appropriate in line with the CIPFA Code of Practice.</li> </ul>	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>

## 2. AUDIT PROGRESS

	Description of risk	Planned response	Update July 2020
3	<p><b>Defined benefit liability valuation</b></p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> <li>critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary;</li> <li>liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;</li> <li>test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;</li> <li>review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PWC and consulting actuary engaged by the National Audit Office; and</li> <li>agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.</li> </ul>	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>
4	<p><b>Revenue recognition</b></p> <p>Auditing standards include a presumption that there is a significant risk in relation to the timing of income recognition, and in relation to the judgements made by management as to when income has been earned.</p> <p>However, audit teams are allowed to consider the level of risk associated with each organisation and rebut where appropriate.</p>	<p>We do not consider this to be a significant risk for Ashfield District Council for the following reasons:</p> <ul style="list-style-type: none"> <li>the level of risk is considered to be low for Local Authorities;</li> <li>majority of the Council's income is derived from grant funding, taxation (Council Tax and Business Rates) or rental income with the remaining balance considered to be low and generally represents a number of low value, high volume transactions; and</li> <li>incentive and/ or opportunity to commit material fraudulent revenue recognition is deemed low</li> </ul> <p>We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk (Identified at point 1).</p>	<p>This remains applicable since the issue of our Audit Strategy Memorandum.</p>

## 2. AUDIT PROGRESS (CONT.)

### **Materiality**

Our Audit Strategy Memorandum set out our planning materiality assessments for 2019/20.

We will update these assessments to reflect the 2019/20 draft statements. We will report the updated materiality levels and any audit differences in our Audit Completion Report.

### **Other Reporting Matters**

We have no issues to report at this stage in relation to the following audit matters:

- Fraud
- Significant internal control deficiencies
- Accounting practices
- Non-compliance with laws and regulations
- Practical difficulties in carrying out the audit or co-operation from management
- Threats to our independence

# APPENDIX 1 – COMMUNICATIONS AND TIMELINE

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specify the matters we are required to communicate to you. These matters, and the reports we will issue, are as follows:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

Further outputs from our audit (and planned dates, based on our current understanding of the statutory timetable) include:

- Audit Committee Progress Reports – July 2020
- Audit Completion (ISA260) Report and Draft Audit Report – October 2020
- Value for Money Conclusion – October 2020 (included within our Audit Completion Report)
- Annual Audit Letter – November 2020

## APPENDIX 2 – CIPFA YEAR END BULLETIN

CIPFA's Bulletin 05 on the Closure of the 2019/20 Financial Statements (May 2020) summarises the key points for local authorities to consider and includes a particular focus on areas impacted by the COVID-19 pandemic. A copy of the Bulletin can be found via the following link:

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

We have included below a summary of the matters highlighted in the Bulletin below:

Topic	Description
Dedicated Schools Grant	The Bulletin confirms the expected accounting and disclosure of deficit and surplus balances carried forward in the 2019/20 accounts.
Accounting for McCloud and Sargent Judgements in 2019/20	The Bulletin provides updated guidance on the recognition and accounting for these liabilities.
Changes to the 2019/20 financial reporting deadlines	The Bulletin confirms the changes to the 2019/20 timetable
Deferral of the implementation of IFRS16	The implementation of IFRS 16 Leases has been deferred for one year in-line with the government's Financial Reporting Advisory Board's proposals for central government departments. The effective date for implementation is now 1 April 2021.
Going concern basis of accounting	The Bulletin confirms that despite the impact of COVID-19 on local authority financial sustainability the going concern basis of reporting in the Code and the rationale behind it remains unchanged. The Bulletin does though highlight the need for local authorities to report on the impact of financial pressures in the narrative report will also need to ensure that their reports on credit risks in the financial statements appropriately reflect the impact of the COVID-19 pandemic.
Accounting for COVID-19 support measures	The Bulletin clarifies the role of councils as 'agents' or 'principles' in the distribution of grants and the expected accounting treatment.
S.31 Grants for 2020/21 paid in 2019/20	The Bulletin sets out the issues to consider in recognising this income in the 2019/20 financial statements.
Financial reporting issues arising from COVID-19	The issues highlighted include: <ul style="list-style-type: none"> <li>• The assessment and disclosure of relevant events after the reporting period</li> <li>• Impact on land and buildings valuations</li> <li>• Fair values of investments and investment properties</li> <li>• Expected Credit Losses</li> <li>• Narrative Reporting</li> <li>• Reporting significant accounting judgements and estimation uncertainty.</li> </ul>
Impact of COVID-19 on Pension Fund investment measurement and Impairment	The Bulletin highlights a number of significant matters relating to the impact of COVID-19 on year end values and the increased estimation uncertainty. The Bulletin identifies the importance of pension funds engaging early with its fund managers, custodians and investment advisers to ensure it is well placed to prepare materially accurate financial statements and make disclosures (regarding, for example, estimation uncertainty) which are complete and up to date.



## CONTACTS

Partner  
David Hoose

Mobile: 07552 007 708  
Email: [david.hoose@mazars.co.uk](mailto:david.hoose@mazars.co.uk)

Manager  
Michael Butler

Mobile: 07580 849 299  
Email: [michael.butler@mazars.co.uk](mailto:michael.butler@mazars.co.uk)