

# Annual Audit Letter

## Bury Council

Year ending 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Bury Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 25 March 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council and its Group's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied, with the exception of the matter described below, that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020. This represents a 'Qualified conclusion – Except for'.</p> <p>Work has been underway to update and improve the overall governance and decision-making arrangements to support corporate planning, risk management, financial management, and performance management. However, these arrangements were not completely embedded during 2019/20. We consider this to present a weakness in the Council's proper arrangements for informed decision making.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4<sup>th</sup> November, we finalised our report to the group auditor in line with the requirements applicable to the Council's WGA return on 21 June 2021.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and its Group, and whether they give a true and fair view of the Council and its Group's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council and its Group's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council and its Group's financial position as at 31 March 2020 and of its financial performance for the year then ended. Our report included an emphasis of matter in relation to valuation uncertainty relating to the Council and Group's property portfolio as well as their relevant share of property assets held by the LGPS Pension Fund reflected in the Council and Group's IAS19 entries.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£11.900m
Financial statement materiality (Group)	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£12.300m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.357m
Trivial threshold (Group)	Our trivial threshold is based on 3% of financial statement materiality.	£0.369m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: Senior Officer Remuneration.	£0.005m

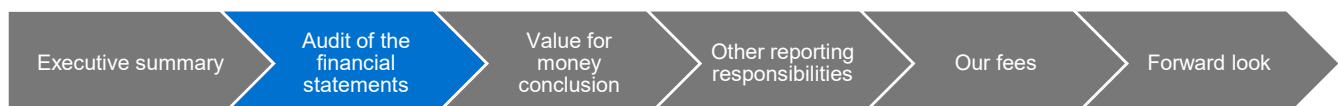


## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and its Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls</b>	<b>How we addressed this risk</b>	<b>Audit Conclusion</b>
In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over: <ul style="list-style-type: none"><li>• Accounting estimates impacting on amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>	We did not identify any significant matters arising from our testing of management override of controls.





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

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Identified significant risk	Our response	Our findings and conclusions
Valuation of Property, Plant, and Equipment	How we addressed this risk	Audit Conclusion
<p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date.</p> <p>The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a four year cycle with all retail properties and a significant proportion of investment properties revalued annually.</p> <p>The valuation of Property, Plant &amp; Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;</li> <li>Considered whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, and the CIPFA Code of Practice;</li> <li>Critically assessed the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence;</li> <li>Considering whether the valuation changes in 2019/20 are consistent with evidence of changes in industry published indices of changes in build costs;</li> <li>Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;</li> <li>Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;</li> <li>Critically assessed the approach that the Council adopts to ensure that assets 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 valuer;</li> <li>Engaged a consulting valuer to provide us with additional assurance that the valuations attributed to two specific assets are appropriate; and</li> <li>Tested a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.</li> </ul>	<p>We completed our testing in relation to this risk, and an emphasis of matter was included in our auditor's report relating to the material valuation uncertainty as a result of the Covid-19 pandemic.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and its Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Valuation of Defined Benefit Pension Liability	How we addressed this risk	Audit Conclusion
<p>The net pension liability represents a material element of the Council's balance sheet.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's actuary, Hymans Robertson;</li> <li>Liaised with the auditors of the Greater Manchester Pension Fund and obtained assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;</li> <li>Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuations for the Council and the two subsidiary companies. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and</li> <li>Agreed the data in the IAS 19 valuation reports for the Council and the two subsidiary companies provided by the actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.</li> </ul>	<p>We completed our testing in relation to this risk, and an emphasis of matter was included in our auditor's report relating to the material valuation uncertainty related to the property assets held by the pension fund as a result of the Covid-19 pandemic.</p> <p>There were no other matters arising from our work in relation to this risk.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to enhanced risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and its Group's financial statements that required special audit consideration. We reported enhanced risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified enhanced risk	Our response	Our findings and conclusions
<b>Valuation of Airport Shareholding (Single Entity)</b>	<b>How we addressed this risk</b>	<b>Audit Conclusion</b>
The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited (MAHL) at 31 March 2020. The valuation is determined under IFRS13 applying a consistent methodology to previous and applying key assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.	<p>Our approach to auditing the investment in Manchester Airport Holdings Limited included the involvement of the Mazars in-house valuation team.</p> <p>The Mazars in-house valuation team reviewed the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.</p> <p>We reviewed the calculation of the valuation by the Council's external valuation expert in light of the update financial information available in July 2020 from the published MAHL financial statements for the year to 31 March 2020.</p>	We have completed our procedures and there are no matters arising against the valuation of the Council's investment in MAHL.
<b>Accounting for Schools (Single Entity)</b>	<b>How we addressed this risk</b>	<b>Audit Conclusion</b>
The Council continues to account for schools in its single entity financial statements. In addition the Council discloses that it includes in its financial statements the following categories of schools: Community, Voluntary Aided, Voluntary Controlled and Foundation.	We will consider the continued accounting treatment of the Council's schools and its compliance with the requirements of the CIPFA Code and other sector guidance.	We have completed our procedures and there are no matters arising against the treatment and accounting for schools in the Council's accounts.





### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

**Qualified – Except For**

#### Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>During 2019/20, the Council has been developing and strengthening its overall decision making arrangements to comply with the principles and values of sound governance.</p> <p>The Council is committed to acting in the public interest, and is undertaking work to underpin the decision making process with necessary governance arrangements and appropriate, timely, and reliable financial information.</p>	No
Sustainable resource deployment	<p>The arrangements in place to manage this risk are appropriate and effective.</p> <p>The planned use of the financial resources of the Council support the strategic priorities and maintaining the statutory functions. Assets are managed and utilised in such a way to facilitate meeting these priorities and functions.</p> <p>The workforce is deployed in such as way as to make this possible.</p>	Yes
Working with partners and other third parties	<p>The arrangements in place to manage this risk are appropriate and effective.</p> <p>The Council has put in place management and oversight functions to ensure that the work carried out with third parties helps achieve strategic priorities. This includes the effective commissioning of services where required. The commissioning and procurement functions of the Council support the delivery of strategic priorities.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Risk	Work undertaken	Conclusion
<p><b>Financial Sustainability</b></p> <p>The Council has identified and set out the financial challenges it faces over the period 2019/20 to 2023/24.</p> <p>Though not unique to Bury, they do present a significant audit risk in respect of considering the arrangements that the council has in place to deliver financial sustainability over the medium term.</p>	<p><b>Findings</b></p> <p>The net revenue budget requirement for the Council for 2019/20 was set at £138.862m. The Council was able to deliver the programme to a net overspend on revenue of £5.003m, though it should be noted that the overspend was impacted in March 2020 by the agreement of additional contribution to the pooled fund and the application of £3.650m of reserves. Without the se items the council would have achieved an in-year revenue underspend against budget of £1.847m.</p> <p>The Council faces a significant challenge in ensuring its financial sustainability over the medium term. This challenge, which is exacerbated by the Covid-19 situation, has been developing over several years. In addition, the Council continues to face financial pressures arising from demand in some services, most notably Communities and Wellbeing which overspent in 2019/20 by £12.393m primarily relating to the pooled fund, and Children's services which saw an £2.226m overspend against budget in 2019/20.</p> <p>In setting the 2020/21 budget, the Council made a number of decisions including the planned the use of a further £12.4m of reserves and use of the dividend income from Manchester Airport to support services in the year. The budget also required the Council to deliver savings in areas including Children's services, in order to mitigate the growing demand led financial pressures.</p> <p>However, the financial position for 2020/21 became significantly more difficult because of the COVID-19 pandemic. The Council is continuing to refine its assessment of the impact of COVID-19 on 2020/21 and future years.</p> <p>It is apparent that there are also significant additional cost pressures, particularly in delivering Social Care and the local health economy, and significant levels of lost income. The lost income relates to fees and charges, income from the Council's investments including that in the Manchester Airport Group, and an impact on the Collection Fund for both council tax and business rate income. The Council has continued to respond to the government's request for increasingly detailed financial information in monthly returns and is therefore tracking its position closely.</p>	<p>The arrangements in place to manage this risk are appropriate and effective.</p>



### 3. VALUE FOR MONEY CONCLUSION

Risk	Work undertaken	Conclusion
<b>Financial Sustainability</b>	<p>The arrangements in place at the Council for budget setting and updating the Medium Term Financial Plan (MTFP), provide a clear financial framework for the Council. However, they are impacted by factors outside of the Council's direct control including the:</p> <ul style="list-style-type: none"><li>• delayed comprehensive spending / fair funding review;</li><li>• impact of business rates reset; and</li><li>• review of the business rates retention pilot.</li></ul> <p>In identifying these uncertainties, management have made a series of assumptions that can be updated as information becomes available.</p> <p>Officers have prepared and presented to members a financial impact analysis highlighting the likely funding gaps for each year in the period.</p> <p>Although the Council still has significant levels of earmarked reserves as at 31 March 2020, these will not be sufficient to sustain the Council's financial position over the medium term given the estimated impact of the pandemic. This means the Council needs to ensure that the strategic decisions it has taken about its services it wants to provide are implemented and the savings it has identified as necessary are delivered.</p> <p>The arrangements in place for monitoring the financial position will allow the Council to identify any emerging additional pressures or slippage in the delivery of these plans.</p>	See above



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant audit risk(s). The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<b>Informed Decision Making</b>  The Council has started to implement significant and ambitious plans for the reorganisation and transformation of the Council. The overall governance and decision-making arrangements need to be refreshed to support this.	<b>Findings</b>  During 2019/20, the Council has been developing and strengthening its overall decision making arrangements to comply with the principles and values of sound governance.  The Council is committed to acting in the public interest, and is undertaking work to underpin the decision making process with necessary governance arrangements and appropriate, timely, and reliable financial information.  We are satisfied that the Council was able to update and improve governance arrangements to support corporate policy, risk management, financial management, and performance management. During 2019/20, the Council embedded changes within the Internal Audit function, updated the Constitution, including decision making and contract procedures, and made structural changes regarding management and directorate responsibilities. However, the plans were not as far along as initially expected.  In early 2020 it was clear that though plans had not been fully delivered, progress was being seen and there were the green shoots of improvement from the changes in arrangements. There were steps forward in respect of social care, and progress was being made in the right direction, however, these were not as advanced as far as possible or expected.  While the Council had stabilised some of the risks relating to financial sustainability as identified in previous pages, and though arrangements in 2019/20 were better and stronger following the changes made, there is still work to progress in 2020/21, notwithstanding the pandemic. It has been necessary, and continues to be necessary, for the Council to be able to identify and separate out what are Covid related pressures and what remain as underlying issues to be addressed.	We have concluded that the arrangements in place to manage this risk were not yet fully realised and have qualified our VFM conclusion on this basis.



### 3. VALUE FOR MONEY CONCLUSION

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Risk	Work undertaken	Conclusion
<b>Informed Decision Making</b>	<p>There had been an ongoing issue relating to a persistent deficit on the Dedicated Schools Grant (DSG) and the Council is one of several who are involved in a 'safety valve' arrangement with Department of Education as part of an intervention to try and help the Council address this. We have seen that this is helping the Council and schools deliver for local children and the improvement in the working relationship. It will be important for necessary information to be available to assist officers and members make informed decisions about this project.</p> <p>While not fully realised in 2019/20, we can see that the Council is making significant progress in this area both in structural and operational terms. This work needs to continue in 2020/21 to enable the Council to make informed and effective decisions.</p>	See above



### 3. VALUE FOR MONEY CONCLUSION

Risk	Work undertaken	Conclusion
<p><b>Working with Partners and Third Parties</b></p> <p>The Council is working with Bury Clinical Commissioning Group (CCG) and other partners (such as local care providers), to help secure a sustainable health and social care economy.</p> <p>By putting in place arrangements for the Council, care organisations, and the CCG, to work more closely together, it is anticipated that developing new models of care for community health, primary care and social care services will have a significant impact.</p>	<p><b>Findings</b></p> <p>We have reviewed the arrangements in place for the Council to work with its partners to deliver the transformation and strategic development of the Borough's health and social care economy, how the governance arrangements have operated, and how the arrangements and risks have been monitored and managed.</p> <p>This has included review of detailed consideration and reporting by internal audit, as well as other sources of information, and direct meetings with senior officers with direct responsibility for the programmes.</p> <p>The Council has put in place a series of initiatives to provide greater insight, the increased need for key metrics to help identify early intervention measures, and ownership of the financial impact of operational decisions taken. Reports are submitted to the relevant meeting setting out the pertinent issues and decisions are appropriately recorded.</p> <p>There is evidence of appropriate and regular monitoring and reporting, including of financial due diligence around partner and scheme selection criteria.</p> <p>However, it should be noted that there remain significant financial challenges ahead for the Council and its partners, and uncertainty throughout the health sector which have been exacerbated by the Covid-19 pandemic.</p>	<p>The arrangements in place to manage this risk are appropriate and effective.</p>





## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any such notices.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We are finalising this return with the assistance of your officers and will report to you in due course.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the audit committee in 2020. Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 Proposed final fee	2018/19 final fee
	£	£
<b>Scale fee</b>	£89,882	
<b>Additional fee for 2019/20:</b>		
<u>Changes in scope:</u>		
PPE valuation	13,000	
Defined Benefit liability valuation	4,250	
 <u>Scope changes due to Covid 19:</u>		
Valuation uncertainty	1,500	
Going concern	1,500	
 <u>Scope changes due to other matters:</u>		
Pensions – legal issues	1,000	
 <u>Additional requirements:</u>		
Additional VFM work – governance risk	3,250	
<b>Total Fee</b>	<b>114,322 (*)</b>	<b>115,342</b>

\* Final proposed fee to be confirmed with PSAA

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- 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; and
- 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.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings are now being considered by the Ministry of Housing, Communities and Local Government. We look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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