

The West of England Combined Authority Audit Progress Report and Sector Update

Year ending 31 March 2022

Audit Committee 28 April 2022



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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 planning 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 of the risks which may affect the Combined Authority 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.

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Introduction

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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 Combined 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 ..

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 8 April 2022

Financial Statements Audit

We reported our work in the interim Audit Findings Report in late September 2021 and presented the final version to the Audit Committee on 9 December 2021.

We issued an unqualified audit opinion on the Combined Authority's financial statements for the year ended 31 March 2021 on 10 December 2021.

At that time we were unable to issue our certificate for the year because we had not completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

At the time of writing, the guidance regarding the Whole of Government Accounts has not been issued and so this work remains outstanding for all Local Government organisations.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

We did not identify any risks of significant weaknesses during our initial planning work for 2020/21 and none were therefore included in our audit plan for 2020/21.

Since issuing that audit plan, matters have been reported in the public domain regarding strained relationships within the West of England.

As reported in our final Audit Findings Report for 2020/21, which we presented to the Audit Committee on 9 December 2021, we have designated the governance arrangements impacting these relationships as a risk of significant VFM weakness.

We have determined a plan of appropriate work relating to this particular risk and shared an outline of this at an Audit Briefing meeting on 3 February 2022. We subsequently held discussions with the Chief Executive and interim Monitoring Officer and have included an updated Terms of Reference as Appendix A to this report. Work is currently underway in this area.

Our work on the other areas prescribed by the Code ('financial sustainability' and 'improving economy, efficiency and effectiveness') is also in progress. We have summarised our financial sustainability findings in a separate report the Audit Committee in April 2022. We will include our findings in these areas, along with our detailed findings on the Governance element of the Code in our Auditor's Annual Report.

Progress at 8 April 2022 (cont.)

Value for Money (continued)

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

This letter was issued to the Chair of the Audit Committee on 14 September 2021 and was included within the Audit Committee papers for the meeting that took place on 22 September 2021.

As a result of the ongoing pandemic, the National Audit Office updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements.

The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. For The West of England Combined Authority this would have been 10 March 2022.

Due to the reasons outlined on the previous page, this was not achievable and we issued a further extension letter to the Chair of the Audit Committee in April 2022.

Events

We provide a range of workshops, along with network events for members and publications to support the Combined Authority.

Your officers attended one of our Financial Reporting Workshops in early 2022, which will help to ensure that they are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Combined Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, Public Sector Audit Appointments Ltd (PSAA) awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 was the third year of that contract.

Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve.

There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits and will agree any fee implications with management before advising the Audit Committee.

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

Audit Deliverables

2021/22 Deliverables	Planned Date (see below)	Status
<p>Auditor's Annual Report This Report communicates the key issues arising from our Value for Money (VFM) work.</p>	June 2022	Work in progress – see pages 4 & 5
<p>Certificate The certificate confirms that the audit has been completed.</p>	June 2022	To be issued on completion of VFM work and WGA submission
2021/22 Deliverables		
<p>Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Combined Authority's 2021/22 financial statements and the Auditor's Annual Report on the Combined Authority's Value for Money arrangements.</p>	April 2022	To be presented to April 2022 Audit Committee*
<p>Audit Findings Report The Audit Findings Report will be reported to the Combined Authority's Audit Committee on completion of our work.</p>	September 2022**	Not yet due
<p>Auditors Report This includes the opinion on your financial statements.</p>	October 2022**	Not yet due
<p>Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.</p>	December 2022***	Not yet due

* We will commence our Value for Money (VFM) risk assessment for 2021/22 once the VFM work for 2020/21 has been completed and reported. We will provide an update to the Audit Committee once this risk assessment has been completed.

** The Accounts and Audit (Amendment) Regulations 2021 require draft accounts and Annual Governance Statement on or before 1 August 2022. DLUHC have proposed, subject to consultation and legislation, to extend the deadline for 2021/22 audited accounts to 30 November 2022. This has not yet been actioned.

*** The NAO has indicated that, as with 2020/21, it will de-couple the opinion on the financial statements with the Value for Money assessment and that the latter will be due within three months of the opinion on the Combined Authority's financial statements being issued. Our completion of this work by this indicative date is dependent on the completion and reporting of the work undertaken regarding 2020/21.

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

[FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

FRC annual report (cont.)

Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities 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, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Emergency consultation on 2021/22 reporting

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explored two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- 1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation. Whilst this issue is not relevant for WECA, we have included details of our position for completeness.
- 2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

Summary of the Grant Thornton response

Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

Update

The consultation closed on Thursday 3 March.

The proposals regarding PPE valuations were not supported.

As regards the deferral of IFRS16, this change was supported and on 8 April 2022 CIPFA advised that that local authorities can defer the implementation of IFRS 16 to 1 April 2024, but that authorities will have the option to early adopt from 1 April 2022 or 1 April 2023.

The key issue in the short-term is that where an authority proceeds with adoption from 1 April 2022, then an IAS 8 disclosure (setting out the impact) will be needed in 2021/22 accounts.

Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

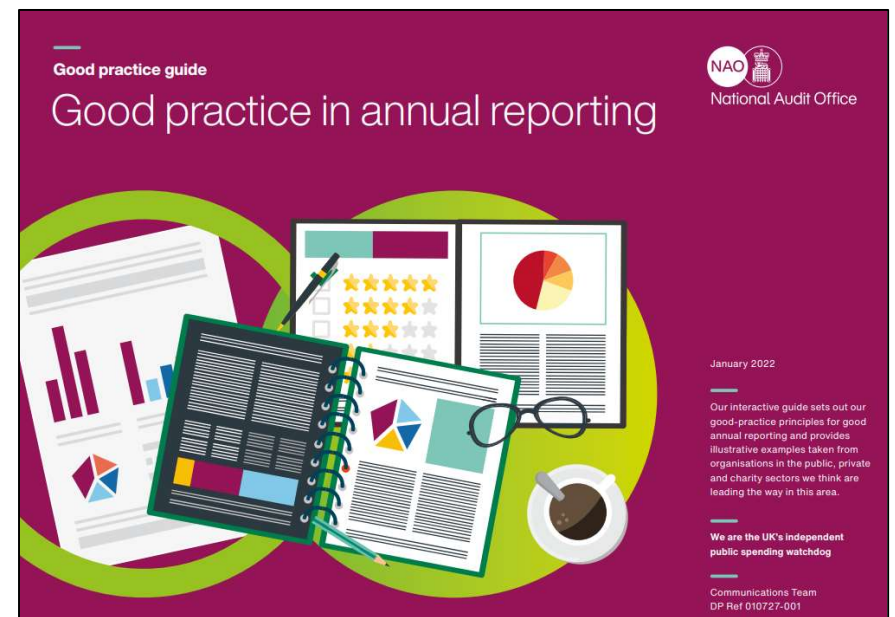
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

Levelling up White Paper – Department for Levelling Up, Communities and Housing (“DLUCH”)

On 2 February 2022 the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February 2022 the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- The PAC was not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October 2021.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September 2021. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state “The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.”

Grant Thornton commented “Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021.”



The news article can be found here:

<https://www.psa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.



The news article can be found here:

<https://www.psa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/>

Guide to support Value for Money (VfM) analysis for public managers – CIPFA

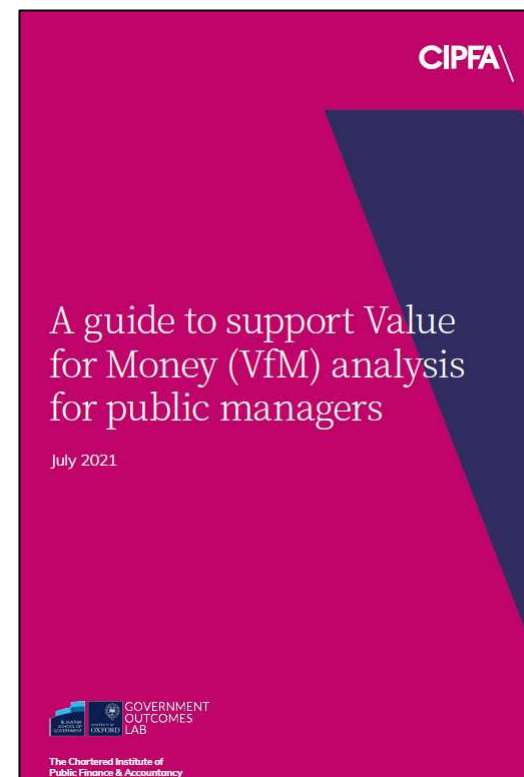
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state “The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to ‘doing nothing’ as well as the closest comparator.”

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.

The guide is available to CIPFA members through the website.



Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK’s statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment “While the exact scale and nature of local authorities’ roles and responsibilities in reaching the UK’s national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector’s powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government’s approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities’ overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities’ ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach.”

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities’ reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

<https://www.nao.org.uk/report/local-government-and-net-zero-in-england/>



Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state “Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

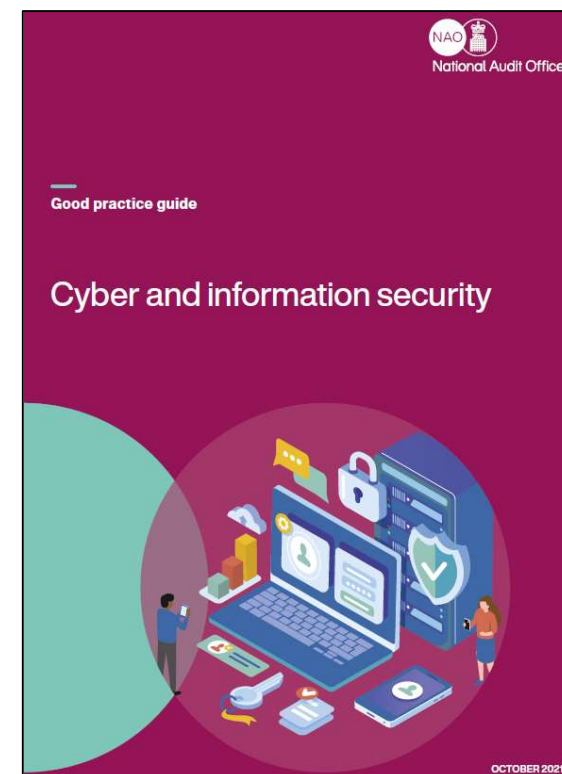
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>



Appendix A

Appendix A: VFM audit – risk assessment considerations

As stated on page 4 of this Audit Committee Update, we reported in our final Audit Findings Report for 2020/21, which was presented to the Audit Committee on 9 December 2021, that we had designated the governance arrangements regarding strained relationships within the West of England as a risk of significant VFM weakness.

We determined a plan of appropriate work relating to this particular risk and shared an outline of this at an Audit Briefing meeting on 3 February 2022. We subsequently held discussions with the Chief Executive and interim Monitoring Officer and the updated Terms of Reference is set out below.



WEST OF ENGLAND COMBINED AUTHORITY (WECA)

External audit update paper for Audit Committee

VfM audit – risk assessment considerations

Background and objective of the paper

At WECA's Audit Committee of 9 December 2021, I advised the Committee of work undertaken as part of the statutory external audit regarding a proposed severance payment. My updated Audit Findings Report also informed the Committee:

- that I had required further disclosure in the draft accounts and Annual Governance Statement of the current strained relationships within the West of England; and
- that I had designated a risk of significant Value for Money (VfM) weakness impacting on the Authority's governance arrangements, due to these strained relationships.

I informed the Committee that this risk would now be considered and reported against in my forthcoming Auditor's Annual Report of the Authority's overall arrangements for delivering Value for Money (VfM). This work would also assess and comment on the qualitative findings from the work I had previously completed on the severance issue. Since the Audit Committee meeting, the severance matter was addressed at the extraordinary WECA Committee of 17 December 2021.

Appendix A: VFM audit – risk assessment considerations

The Audit Committee Chair was also in attendance at the WECA Committee of 17 December 2021 and made a statement to the Committee highlighting a number of his concerns. Since then, I have met with the Audit Committee Chair and agreed that I would produce this paper to inform the Audit Committee members more fully of the nature of work I will now be undertaking and the potential significance of this work, within the context of the statutory audit duties, set out in the Local Audit Accountability Act 2014 and the National Audit Office's Code of Audit Practice. Furthermore, given the nature and potential significance of the issues, we also considered it important that this briefing was extended to a wider group of key stakeholders, including the Chief Executive, Chief Finance Officer and the WECA Committee's membership of the Unitary Authority leader's and Mayor.

Statutory basis of the audit

The local audit of bodies such as WECA is performed under a different statutory framework than that applying to the corporate world. Under the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice, local authority auditors are required to perform a wider scope of audit than just the statement of accounts. This involves a VfM audit, which has been extended in this year's NAO Code update, that covers three prescribed 'Code Criteria':

- financial sustainability;
- improving economy, efficiency and effectiveness; and
- governance (including partnership working).

We are required to produce a comprehensive narrative within an Auditor's Annual Report at the end of this process, which is a public facing independent report on the Authority's arrangements. If significant weaknesses are identified, we are required to raise 'key recommendations', which are formally defined under the Code of Audit Practice as arising if, 'in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public'.

The wider scope of local audit also includes additional formal powers and duties that are required for more significant issues. These include:

- the ability to apply to the Court for a declaration that an item of account is contrary to law;
- the use of an advisory notice to make an application for judicial review;
- the responsibility to report matters in the public interest; and to make written statutory recommendations (which are reserved for more serious matters than the key recommendations referred to earlier).

These powers can be instigated directly by the auditor, or in response to questions raised and objections made by local government electors, when the audit of the accounts is advertised.

Appendix A: VFM audit – risk assessment considerations

For the avoidance of doubt, I will consider the application of these powers during my forthcoming VFM review. I will also be unable to fully close matters relating to the 2021-22 year of account (including the severance payment) until the public rights to ask questions and/or raise objections have been exercised. Given the annual reporting timetable for 2021-22, this is not likely to be until Autumn/Winter of 2022.

Areas of focus

To assist the Audit Committee understanding of my further work regarding the identified risk of significant VFM weakness, the following areas of focus have been identified for our audit. Should any other matters be identified for considering during the audit, they will also be reported to the Audit Committee as part of my report.

Issue	Audit consideration
<p>Wider governance</p>	
<p>Despite recent challenges around relationships and engagement between WECA and its constituent Councils, plans are now in train to address difficulties and move forward in a constructive way through an ongoing independent review. This area is a key area of governance within the NAO's audit expectations.</p> <p>The planned review of the terms of reference for the Joint Committee could have implications for funding arrangements between WECA and the Unitary Authorities.</p>	<ul style="list-style-type: none"> Partnership governance arrangements between the Combined Authority and Councils and progress against the plans to address current difficulties, following the ongoing review Consider the scope and implications of the planned review of the Joint Committee terms of reference.
<p>WECA's constitution proved difficult to apply when considering the severance matter and was acknowledged by all sides (including legal advisors) as being in need of review and clarification.</p>	<ul style="list-style-type: none"> Specific identification of the key problematic areas and assessment of the Authority's proposed response in conducting its planned review.
<p>In recent months, WECA has lost, or is about to lose, the services of a a number of senior officers, including statutory officers. Given the expansion of its role and scale, losing continuity of this number of senior and statutory officers at this time could prove highly problematic for the proper administration of the Authority and its ability to deliver its objectives.</p>	<ul style="list-style-type: none"> Identification and commentary on whether there are any underlying issues contributing to the loss of key staff. Assessment of future plans to replace key roles with appropriately experienced individuals.

Appendix A: VFM audit – risk assessment considerations

Issue	Audit consideration
<p>Severance issue</p> <p>On the basis that she felt there were conflicts in place, the CEO did not initially involve the two statutory officers (Monitoring Officer and Chief Financial Officer) when agreeing a severance arrangement. Because of this, the CEO commissioned external legal advice to support her decision making.</p> <p>The former Monitoring Officer considered this was not effective working.</p> <p>Conflicting legal advice was obtained by different officers at different points in the process.</p> <p>Clarity is required on the rationale for proposing the severance payment and how the payment and its terms was constructed.</p>	<ul style="list-style-type: none"> • Commentary on the matter of statutory officer conflicts and the engagement of external legal advice. • Assess the steps being taken to ensure that the Authority has procedures to protect the interests of statutory officers and to remove any uncertainty about responsibility. • To assess how the Authority managed that conflict and in particular what steps are being taken to ensure that future differences are handled in an open manner. • Assessment of the rationale for recommending the severance and supporting the amounts and arrangements proposed.

Timing and next steps

I have commissioned additional specialist audit resource to undertake this detailed risk-based work. The work is underway and the Audit Committee will be verbally advised of progress at its April meeting. Should further ‘additional powers reporting’ be required, I will keep the Committee fully informed.



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