

Annual Audit Letter

Cleveland Fire Authority

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 Cleveland Fire Authority (the Authority) for the year ended 31 March 2020. Although this letter is addressed to the Authority, 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 7 December 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</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 Authority.</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 Authority and whether they give a true and fair view of the Authority'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 Authority'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 Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Teesside Pension Fund has made a disclosure of '*material valuation uncertainty*' in relation to certain types of assets in the notes to its financial statements. As the Authority's accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, Note 3 to the Authority's financial statements in relation to sources of estimation uncertainty, has been updated to disclose the impact of this on the Authority's financial statements. In line with normal practice, we included reference to this disclosure as an '*emphasis of matter*' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

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 Authority. 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.	£986K (Group) £903K (Authority)
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£30K (Group) £27K (Authority)
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Members allowances - Senior officer remunerations - Exit packages	£3,000 £44,000 £1,000



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 Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance 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
<p>Management override of controls</p> <p>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.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>
<p>Property, Plant and Equipment Valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the valuation of PPE to be an area of significant risk.</p>	<p>We addressed this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We discussed methods used with the valuer and examined supporting information. We used indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We tested all revaluations in year to valuation reports and supporting calculation sheets and re-performed the calculations to ensure that they were correct and source data agreed with floor plans and relevant indices.</p> <p>We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness.</p>	<p>Our work provided the required assurance.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefits liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension fund assets and liabilities were subject to triennial revaluation. This resulted in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls that you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to our expert's report on all actuaries nationally.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We also considered the adequacy of disclosures in the financial statements.</p>	<p>Our work provided the required assurance.</p> <p>As detailed on page 3, our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of Pension Fund property investments.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We did not identify any deficiencies in internal control as part of our audit.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

We are required to consider whether the Authority 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 Authority 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 [Authority] 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>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Audit and Governance Committee. We did not identify any concerns regarding data quality or the decision-making process. The Authority reviewed management accounts through the year and consistently forecast a small underspend, as reported in the year-end accounts.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority’s arrangements:</p> <p>a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</p> <p>b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;</p> <p>c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and</p> <p>d) Managing risks effectively and maintaining a sound system of internal control.</p>	Yes



3. VALUE FOR MONEY CONCLUSION (continued)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services to date and the Authority has balanced the 2020/21 budget through identified savings of £0.2M, which have already been secured through procurement. General reserves of £1.5m are maintained and the £4.5M budget support fund is available to allow time for further savings to be implemented once the scale of funding reduction from 2021/22 is known. The February 2020 Medium Term Financial Strategy 2018/19 to 2022/23 modelled two alternative scenarios that forecast a deficit of between £0.5M and £2.7M built up between 2021/22 and 2022/23. The Strategy shows that each deficit will be funded from the budget support fund until savings from ongoing projects are identified and delivered; the call on this reserve varying depending on the scenario.</p> <p>The Authority received a HMICFRS inspection in December 2019 and was rated 'good' in every category, one of only 34% of fire authorities to achieve this.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; b) Managing and utilising assets effectively to support the delivery of strategic priorities; and c) Planning, organising and developing the workforce effectively to deliver strategic priorities. 	Yes



3. VALUE FOR MONEY CONCLUSION (continued)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>Memoranda of understanding with other emergency services illustrate the Authority's commitment to increase collaboration and build on long-established partnership arrangements to improve community safety. The Community Integrated Risk Management Plan (CIRMP) includes proposals for further collaboration that are currently subject to due diligence.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> a) Working with third parties effectively to deliver strategic priorities; b) Commissioning services effectively to support the delivery of strategic priorities; and c) Procuring supplies and services effectively to support the delivery of strategic priorities. 	Yes



3. VALUE FOR MONEY CONCLUSION (Continued)

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 Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>Sustainable resource deployment beyond 2020/21</p> <p>The Government is reviewing the approach it will take to funding fire and rescue from 2020/21, but has indicated that it will not release the results of the review until late 2019. There is also considerable uncertainty about pay and pension pressures.</p> <p>The Authority has prudently built up £4.1m reserves to bridge the time between the extent of the funding gap being known and the implementation date for additional savings schemes required. The Medium Term Financial Strategy shows the savings required from 2020/21 to 2022/23 after utilising these reserves for a range of possible income and cost scenarios.</p> <p>However, there is a risk that the Authority will be unable to sustain delivery of strategic priorities in the Community Integrated Risk Management Plan (CIRMP), and maintain statutory functions beyond 31 March 2020 unless the arrangements to identify and implement additional savings are strong.</p>	<p>We reviewed the Authority’s arrangements to ensure that it delivers its new CIRMP, focusing especially on progress identifying additional savings from 2021/22 onwards.</p> <p>We also reviewed the 2019/20 financial and performance outturn and the updated VFM Profile produced by the National Audit Office to identify any emerging risks to the VFM Conclusion. This review considered the latest forecasts for the level of reserves available at 31 March 2021 as stated in the new Medium Term Financial Strategy reported to the Executive in September 2020..</p>	<p>The Authority increased its usable reserves more than budgeted in 2019/20 whilst sustaining strong performance in priority areas. The Authority has maintained the fastest response times to primary fires in the country. HMICFRS rated the Authority ‘good’ in all 3 inspection pillars and the Authority has recently launched an arson reduction strategy with partners to tackle the area with greatest scope for improvement.</p> <p>The implementation of the remaining proposals in the CIRMP is developing in line with project milestones. These include developing a plan to offset the worst case planning scenario in the Medium Term Financial Plan. The £4.5M budget support fund provides a longer lead time to deliver the savings once the uncertainty over funding, pay and pensions is resolved.</p> <p>The financial outlook remains challenging, with the added complexity of managing in the context of the COVID-19 pandemic and the continued uncertainty over future funding settlements. The Authority used the planned underspend to create a new earmarked reserve of £400,000 to help address the expected impact of the recession on revenue. A similar underspend is forecast in 2020/21 as ring-fenced government grant is anticipated to cover the costs of the pandemic in the current year.</p> <p>The September 2020 Medium Term Financial Plan forecasts that between £1.1M and £1.6M of earmarked reserves will now be needed to support the budget position in 2021/22, whilst proposals to provide savings from 2022/23 are developed.</p>



3. VALUE FOR MONEY CONCLUSION (continued)

Impact of the COVID-19 Pandemic

During March 2020, the significant impact of the COVID-19 pandemic began to have far reaching implications for us all, including an impact on the Authority. In particular, following the lockdown from 26 March 2020, the service needed to respond to the impact of the pandemic on its communities and also needed to adapt to new ways of working.

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, the Authority did not have time to review its arrangements for informed decision making, sustainable resource deployment or working with partners and other third parties during the financial year under review. Consequently, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

The Authority's response to the pandemic will be a major focus of our 2020/21 audit. With this in mind, we have continued to liaise with officers and gain an understanding of the arrangements that have been put in place in the new financial year.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below Testing Threshold
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 Authority'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 did not receive any such objections or questions.

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 submitted this information to the NAO on 7 December 2020.

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 Authority. 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 Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

Following completion of the audit, we have revisited the fees for 2019/20. In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	25,169	25,169
Recurring increases in the base audit fee arising from regulatory pressures		5,110
One-off fee increases for 2019/20 specific issues		2,052
Total Audit Fees	25,169	32,331

All fees are subject to VAT

Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,789
Additional work on pensions	£1,533
Additional work on review of journals	£1,022
Additional work in relation to the consideration of going concern	£766
Total additional fee for 2019/20 (recurring in future years)	£5,110



5. OUR FEES

Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures, including the impact of delays, in addressing the issues raised in the Pension Fund auditor assurance letter and the resolution of issues arising, including the overstatement of Pension Fund assets and the matters raised in relation to the Pension Fund category of 'undecideds'	£680
Additional procedures in relation to Material Valuation Uncertainty of the Council's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Additional procedures to consider the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities	£346
Total additional fee for 2019/20 (not recurring)	£2,052

Fees for other work

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



6. FORWARD LOOK

Financial outlook

In the Value for Money Conclusion section of this letter we indicated that there is considerable uncertainty about the Authority's financial outlook as the Government's review of the formula for funding local authorities has been postponed until late 2021. In addition, the COVID-19 pandemic is likely to reduce revenue from local taxation from 2021/22. The Authority has prudently increased reserves to allow it to sustain strong performance whilst managing the financial challenges it has already faced and lie ahead.

In September 2020 the Authority updated its Medium Term Financial Plan to reflect its latest forecasts of the budget shortfall between 2021/22 and 2022/23. The plan is balanced by utilising between £1.1M and £1.6M of earmarked reserves. This buys the Authority time whilst proposals to provide savings from 2022/23 are developed and considered, but a permanent solution would then be required in 2023/24.

Operational challenges

HMICFRS rated the Authority 'good' in all 3 categories in its full 2019 inspection. The Authority has continued to perform well against key indicators in 2020/21 whilst undertaking additional roles to help the community respond to the pandemic and implementing improvements set out in its service plan and CIRMP. Work is progressing on track to develop a new CIRMP for consultation late in 2021.

Legislative / environmental changes

Following the Police and Crime Act 2017, the Government are currently consulting on ways to improve the accountability of Police and Crime Commissioners to the communities they serve, which includes examining lessons learnt from different governance models for PCC representation on fire authorities. The Authority contributed to a response from the National Fire Chiefs Council and a decision on future governance arrangements for fire authorities is expected during 2021.

How we will work with the Authority

Our 2020/21 audit will focus on the risks that the challenges noted above present to the Authority's financial statements and ability to maintain proper arrangements for securing value for money. We have commented on the changes to the Value for Money requirements in the new Code of Audit Practice on the next page.

We will continue to support the Authority through our audit work and through our attendance at Audit and Governance Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

Our added value offer

We are grateful to the Authority, its Members and officers for the cooperation and open dialogue during the year and look forward to continuing to work closely with them in delivering our Code of Audit Practice responsibilities.

We are also keen to help the Authority face its many challenges through the delivery of added value work. In 2018/19 the Engagement Lead provided free member training in fire financial statements. The Engagement Manager is a former National and Regional Fire Service Lead with the Audit Commission and has substantial experience of added value work in the fire and rescue sector. We would be happy to discuss the potential for added value work as the scale of the financial challenge referred to above becomes clearer.



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 1st 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 and we have considered the fee implications.



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 being considered by the Ministry of Housing, Communities and Local Government and 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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