

Torbay Council

Audit progress report and sector updates

March 2024



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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 local authority; and
- a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

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:

<https://www.grantthornton.co.uk/industries/public-sector/local-government/>

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 March 2024

Financial Statements Audit (2021-22)

We are currently undertaking our work on your financial statements for 2021-22. In December 2023 we reported to you that we had encountered some difficulties in completing this work, but that we intended to finalise it by the end of January 2024. As at the date of this report, our work is still ongoing.

Members will recall that in our December report, the most significant outstanding issue was due to difficulties in completing reconciliations between the trial balance, working papers, and draft accounts. Officers committed to completing this reconciliation in January 2024 and we expected that we would then be able to complete the audit. The reconciliation work was not received as expected in January. The nature of the work is challenging and complex and requires understanding legacy working papers not prepared by the current team. We met with officers on 20 March 2024 to discuss progress on the reconciliation and it was indicated to us that this would be completed by 26 March at the latest.

We have continued work on an ad hoc basis while we await the completion of the reconciliation. On the basis that we receive the completed work to an appropriate standard, we will then commit dedicated resource to the audit's completion with the goal of finalising our outstanding work by the end of April 2024.

Value for Money

Under the 2020 Code of Audit Practice, for local government 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.

The National Audit Office (NAO) have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN 03 and issue their Auditor's Annual Report when their work is complete.

For 2022/23 audits, the NAO have confirmed that where the Auditor's Annual Report cannot be issued by 30 September it should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

Our Interim Auditor's Annual Report covering both 2021-22 and 2022/23 was issued on 26 July 2023.

Progress at March 2024 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2021-22 claim is substantially complete. Work for the 2022-23 claim will commence following the issuing of our final HBAP assurance report for 2021-22.

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2022-23 return is complete and the Independent Auditor's Report was issued on 27 November 2023.

Meetings

We met with the Chief Executive and the Director of Finance in January as part of our regular liaison meetings. During the period of audit we have met on a regular basis with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in February 2024, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

Audit Fees

PSAA have published their scale fees for 23/24 [2023/24 auditor appointments and audit fee scale – PSAA](#).

For Torbay Council the scale fees are £308,933. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

Key Audit Partner

From 2023-24 Julie Masci will be taking over as the KAP (Key Audit Partner) for Torbay Council. Paul will continue to act as the KAP for the 2021-22 and 2022-23 financial years until the work on these years is concluded. Julie met with management in March 2024 to discuss the handover of responsibilities. We anticipate her attending the May 2024 Audit Committee meeting to meet with members and present the 2023-24 Audit Plan.

Audit Deliverables

2021-22 Deliverables	Planned Date	Status
<p data-bbox="120 368 264 395">Audit Plan</p> <p data-bbox="120 416 1509 517">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 Authority's 2021-22 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report</p>	March 2022	Completed
<p data-bbox="120 544 421 571">Audit Findings Report</p> <p data-bbox="120 592 1039 619">The Audit Findings Report will be reported to the May Audit Committee.</p>	May 2024	Not yet due
<p data-bbox="120 646 338 673">Auditors Report</p> <p data-bbox="120 694 824 721">This includes the opinion on your financial statements.</p>	May 2024	Not yet due
2021-22 and 2022-23 Audit-related Deliverables	Planned date	Status
<p data-bbox="120 874 831 901">Teachers Pensions Scheme – certification (2022-23)</p> <p data-bbox="120 922 1525 981">This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	November 2023	Completed
<p data-bbox="120 1023 786 1050">Housing Benefit Subsidy – certification (2021-22)</p> <p data-bbox="120 1070 1480 1129">This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	April 2024	Awaiting Council response
<p data-bbox="120 1150 786 1177">Housing Benefit Subsidy – certification (2022-23)</p> <p data-bbox="120 1198 1480 1257">This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

Audit Deliverables

2023-24 Deliverables	Planned Date*	Status
<p>Audit Plan</p> <p>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 Council's 2023/24 financial statements.</p>	May 2024	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	December 2024	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	December 2024	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	September 2024	Not yet due

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However, our expectations is to complete all necessary work by 31 December 2024

2022-23 and the local government backstop

We anticipate that the audit for 2022-23 will not go ahead as planned and that the audit opinion will be disclaimed under the local government backstop arrangements. The consultation on these arrangements ran until 7 March 2024 with the results expected to be reported imminently. We will continue to discuss the impact of this with officers and members as more information becomes available.

Audit Deliverables

Below are some of the audit related deliverables planned for 2023/24.

2023-24 Audit related deliverables	Planned date*	Status
<p data-bbox="120 533 692 563">Teachers Pensions Scheme – certification</p> <p data-bbox="120 579 1525 644">This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	November 2024	Not yet due
<p data-bbox="120 681 658 711">Housing Benefit Subsidy – certification</p> <p data-bbox="120 718 1480 783">This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing 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 show the current estimated financial trajectory of the sector and 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.

Public Sector

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

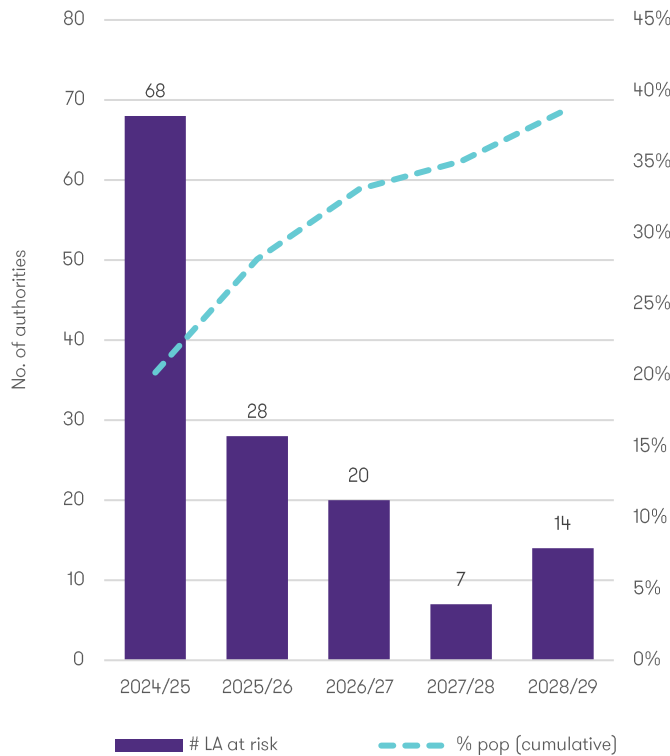
Local
government

The financial trajectory of the sector

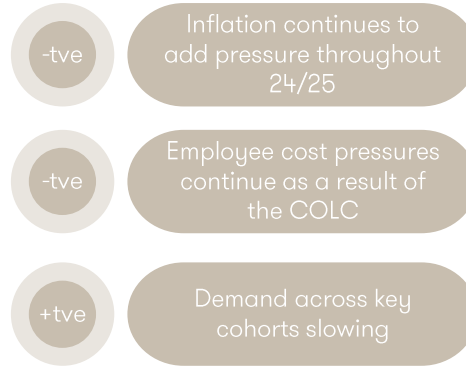
This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

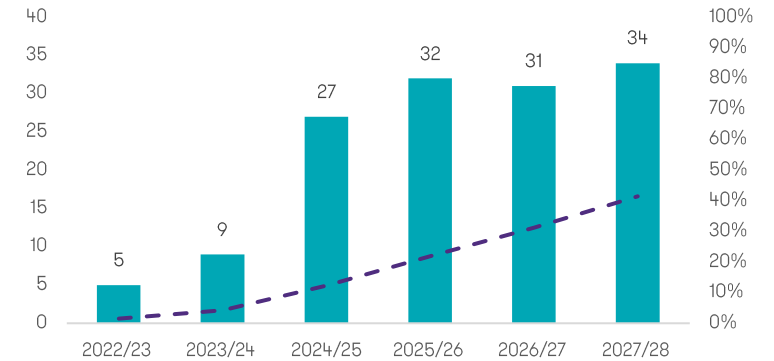
Year at risk (based on Jan 2024 forecast)



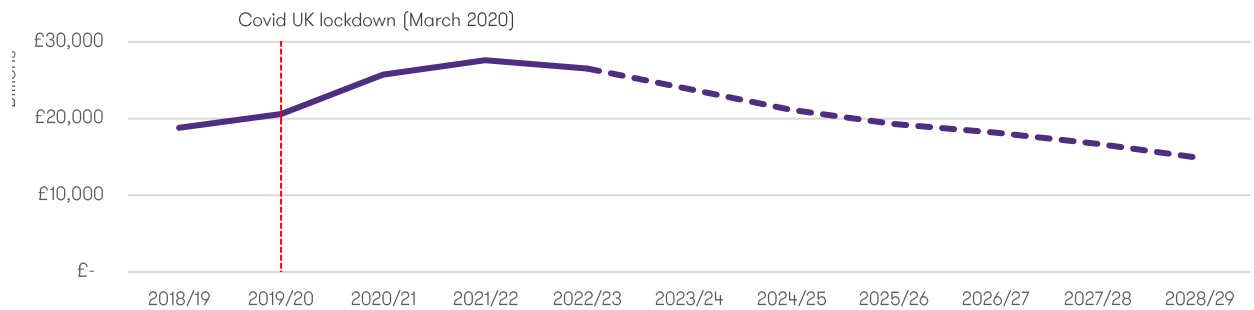
Assumptions



Year at risk (Historic Position)



Level of reserves



Source: Financial Foresight (Grant Thornton and CIPFA)

Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement since, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated: [About time?: key challenges in local audit accounting](#).

Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and

- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

To have your say, navigate to the consultations here:

The DLUHC landing page is here - [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](#)

The NAO landing page is here - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](#)



Grant Thornton report: preventing failure in local government

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: [How can further local authority failures be prevented? \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)



Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued a s114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here [*Financial distress in local authorities \(parliament.uk\)](https://www.parliament.uk/publications/2024/1/financial-distress-in-local-authorities)



Learning from the Office for Local Government

On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/ finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will be also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?



For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

[Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK](#)

[\[www.gov.uk\]](https://www.gov.uk)

[About - Local Authority Data Explorer](#)

New workbook to support councillors in their work on community leadership

On 8th February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

[A councillor's workbook on community leadership | Local Government Association](#)



Making the most of levelling-up funds to local government

In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: Rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see [*Levelling up funding to local government \(nao.org.uk\)](https://www.nao.org.uk/reports/levelling-up-funding-to-local-government/)

£10.6bn	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020-21 and 2025-26
£9.5bn	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
£2.0bn	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
£0.9bn	the amount spent by local places at 31 March 2023

Helping to avoid the “doom loop” for adult social care

In October 2023, the annual Institute for Government / Chartered Institute of Public Finance and Accountancy (CIPFA) public services stocktake revealed that adult social care services are likely to be performing worse in 2027/28 than they were on the eve of the Covid-19 pandemic, and much worse than they were in 2009/10. The report describes the impact across nine different public services of successive governments’ short-term policy making; under-investment in capital; and workforce crisis. For adult social care, it highlights that under current funding arrangements, a return to pre-pandemic levels of performance seems unlikely. The report describes a “doom loop” for adult social care, resting on:

- staffing problems and capacity being worse than they were before the pandemic: Vacancy rates in 2022/23 sat at 9.9%. They were 6.7% in 2019/20;
- growing demand: Since 2015/16, the number of requests for adult social care support from new clients has increased by 22.1% for 18–64-year-olds;
- erosion of cash settlements: Settlements announced in 2021 and 2022 have been eroded over time, due to higher than anticipated pay awards and national inflation; and
- sector-specific inflation: Unit costs of adult social care packages are now much higher than they were before the pandemic. According to a survey of directors of adult social services, this has been driven by increasing complexity of care needs, staffing costs and wider inflationary pressures.

There has been no immediate sign of relief from central government. The Autumn Statement in November 2023 made no new funding available for public services, and spending increases beyond April 2025 of less than 1% in real terms are expected.

Audit Committees can help by asking the right questions. What steps do their entities take to make sure staff costs are managed effectively – with as high a ratio as possible being on substantive staff, for stronger consistency and continuity? What assumptions about future funding are their entities making in their budgets? What are the procurement and brokerage arrangements for purchasing care packages in what is, at present, a supplier’s market?

Service	Performance on the eve of pandemic v 2009/10	Performance now v on the eve of pandemic	Funding adequate to	
			Return to pre-pandemic performance levels by the end of 2024/25	Maintain performance levels between the end of 2024/25 and 2027/28
Adult social care	↓ Much worse	↘ Worse	No	Maybe

For the full report and a sense of how other public services are faring as well, see [Performance Tracker 2023 | Institute for Government](#)



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