

**7 September 2020**

**Agenda Item: 4**

**REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &  
IMPROVEMENT**

**NATIONAL AUDIT OFFICE GUIDANCE FOR AUDIT AND RISK COMMITTEES  
ON FINANCIAL REPORTING AND MANAGEMENT**

**Purpose of the Report**

1. To present assurance to members on how the Council's arrangements for financial reporting and management match up against National Audit Office (NAO) guidance, and to provide an opportunity for members to request further reports on this issue.

**Information**

2. The NAO publishes regular guidance documents for use by public sector audit committees, covering a range of topics. The Group Manager – Assurance monitors the release of these and, where topics are deemed to be of interest and relevance to the work of the Governance & Ethics Committee, arranges for a self-assessment against the guidance to be reported to the Committee.
3. The latest guidance covers the impact of Covid-19 on the arrangements public bodies have for financial reporting and management. The guidance is relevant to the remit of this Committee, and timely in advance of the presentation of the Statement of Accounts for 2019/20.
4. The guide is part of a programme of work to be undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19, but it is also intended that other public sector bodies may make use of the document. The aim is to report in a risk-based way on programmes and activities being undertaken by government departments and other organisations, and also to support organisations' own internal scrutiny and challenge.
5. The guidance is presented in the form of questions that audit committees may wish to ask in scrutinising its organisation's financial reporting and management. The following tables present the recommended areas for scrutiny, alongside a self-assessment of this Council's arrangements.

## Box A: Annual reports – questions audit and risk committees could ask

**Has COVID-19 caused new risks to achieving the organisation's stated objectives?**

- Does the performance report reflect the impact of COVID-19 on the organisation's performance against objectives in the year?
- Does it clearly consider whether COVID-19 influenced the organisation's ability to meet objectives?
- Does it consider the organisation's performance in general, including where this deteriorated or was below expectations?

**Does the corporate governance report consider whether expenditure in response to COVID-19 was in line with parliamentary authority (regular) and in accordance with the principles of *Managing Public Money*?<sup>2</sup>**

- Where this was not the case, has this been clearly disclosed?

**Does the corporate governance report detail how the control environment has changed due to COVID-19 and the risks associated with these changes?**

- How does the report discuss new risks in relation to COVID-19 and the associated responses to these?
- Does the report discuss how the organisation's risk appetite has changed?
- Where relevant, has any streamlining to the annual report due to COVID-19 been agreed with the relevant select committee or parent department?

6. The Authority's Statement of Accounts includes a section in the Narrative Report which outlines the considerable impact that the COVID-19 pandemic has had on the Authority. It explains that there is limited impact on the 2019/20 accounts as the pandemic only started to have a notable impact in the last two weeks of March 2020. It talks about the new COVID19 Resilience, Recovery and Renewal Committee that has been set up to review the Authority's responses. It also talks about the Financial Resilience Group that has been established to consider the financial impact of the crisis.
7. The next six-monthly report to the Improvement Change Sub-Committee on performance against the Council Plan will assess the impact of the pandemic on the achievement of the Council's objectives. Regular reports to the Policy Committee during the emergency have set out how the Council has re-prioritised its aims to ensure resources are focused on the most vulnerable service users.
8. The Annual Governance Statement for 2019/20 was approved by the Governance & Ethics Committee in July 2020. This fully recognises the impact of Covid-19 on the Council's governance framework. This incorporates actions to consider the implications for corporate risk management in the Council, with a first step being to present an updated corporate risk register on today's agenda.

## Box B: Valuations – questions audit and risk committees could ask

### What information has been used in determining the value of assets and liabilities?

- In the absence of timely information, how has management estimated valuations? Is this reasonable? How have changes in valuations for reasons due to COVID-19 been considered? Is there any other information that should be considered?

### How have experts been used to support management in valuations?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- Have the experts provided any caveats on their advice? If so, how have these been considered?

### What are the key assumptions used to determine valuations and how has the relative probability of various outcome scenarios been assessed?

- Have the key assumptions been disclosed clearly?

9. The impact of valuations regarding debtors have been disclosed clearly in the 2019/20 Statement of Accounts as follows. The economic impact of the COVID19 pandemic has made the estimation of debt impairment more difficult, as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts. Following discussion with colleagues in the Business Support Centre, it has been confirmed that there is no current evidence to suggest that general debtors are increasing due to COVID-19. Debtors will however continue to be monitored regularly, and should general debtors rise in 2020/21 the Authority may consider raising the impairment allowance.

## Box C: Property valuations – questions audit and risk committees could ask

### What data have management used for property valuations?

- Is this reasonable? Are there other data that could be used?
- Do these data consider how the market changed in late March 2020?

### How have experts been used to support management in valuing property?

- Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?
- If experts were not used for property valuations, should they have been given the current uncertainty?

### Have the valuers been able to complete their work?

- If they have managed to complete their work, has a material uncertainty paragraph been included in their report?
- How has this clause been considered by management?

### Where a full revaluation is not required in-year how has management valued property in the current market?

- Has management considered whether the indices used remain appropriate?

### Have assets been physically verified?

- If not, how have impairment reviews been carried out? Are there any other impacts of not physically verifying property?

### Is the disclosure of estimation uncertainty clear and understandable for users?

- Have all relevant sources of estimation uncertainty been disclosed?

10. When determining value for the measurement and disclosure requirements in relation to the Authority's property assets, it is likely the Authority will be required to make assumptions and estimations. Where direct, observable market data is unavailable, professional judgement is required and the Authority uses relevant experts to ensure that appropriate valuation techniques are employed, giving full consideration of risk and uncertainty. The Authority's property valuations are carried out by the valuation experts who make up part of the internal Property Asset Management team. The Finance team have worked closely with valuers to ensure that the latest RICS guidance regarding COVID-19 the Royal Institute of Chartered Surveyors (RICS) - (Valuation Practice alert – COVID-19) has been given due consideration in the preparation of providing property valuations. It should be noted that not all the properties were physically inspected, as this was neither practicable nor considered by the valuer to be necessary for the purpose of determining each valuation.

11. The Statement of Accounts discloses that each property is assessed and valued on its own merits, and the valuation is determined with due regard to any changes or uncertainties which may affect the specific property. The valuation certificate issued by the valuers makes it clear that the World Health Organisation declared a global pandemic on 11th March 2020 and the British Government put the nation into lockdown on 23rd March 2020. The significance of

these dates needs recognition as a caution in the light of their proximity to the effective valuation date (EVD) of 31st March 2020 and the unprecedented set of circumstances on which to base a judgement.

12. The valuers provide a written statement each year as to the accuracy of all the property valuations held on the Authority's asset register. For the 2019/20 Statement of Accounts, this statement confirmed that in the valuers' opinion, it is still too early to understand the impact of the COVID-19 crisis on property values. Whilst limited anecdotal evidence may exist, there was no convincing transactional evidence in the market to suggest impairment at the EVD and it is not possible to accurately predict the longevity and severity of the impact of COVID-19 on the economy. Therefore, it has been difficult to value property assets and, as a result, values have been based on the situation prior to COVID-19, on the assumption that movements will be restored when the real estate market becomes more fluid. This assumption will be reviewed in the coming months, with the likelihood that any significant body of evidence of completed transactions will not be available until later in 2020/21.

#### **Box D: Pension schemes valuations – questions audit and risk committees could ask**

**Has management held discussions with pension plan actuaries regarding changes to their assumptions due to COVID-19?**

- What adjustments have been made to assumptions?
- Do the actuarial assumptions represent the information available at the reporting date?

**What is the availability of information to be used in determining valuation?**

- Where valuation information which does not date from the year-end has been used, how has management ensured this is accurate as at the reporting date?

**Have pension plan actuaries provided any caveats in their reporting?**

- If so, how has management taken account of these?

13. The IAS19 report for the Council was prepared by Barnett Waddingham in May 2020, using fund asset information as at 31 March 2020. The actuarial assumptions were based on best information at that time. The report includes a sensitivity analysis assessing the impact of variations to the assumptions (+ and -) on the projected service cost and hence of the liability.

### **Box E: Inventory valuations – questions audit and risk committees could ask**

**How has management gained comfort over the quantity and condition of the stock held at the reporting date?**

- If stock counts have not been possible, what alternative procedures have management completed?

**How has COVID-19 impacted inventory usage?**

- When do you expect this to go back to normal?
- How has this impacted valuation forecasts?

**How has management valued inventory held in the context of COVID-19?**

- Is this reasonable? What other methods could have been considered?

**Has management had to use new suppliers/hold inventory of new goods?**

- How has management assured itself that the suppliers can supply or have supplied the goods at the quality or quantity required?

14. The value of inventories disclosed in the Authority's Statement of Accounts are immaterial in nature. Nonetheless, all of the usual stock counts were able to be carried out as normal.

### **Box F: Completeness of liabilities – questions audit and risk committees could ask**

**Are liabilities complete based on your knowledge of the business and the impact of COVID-19?**

- Has management completed a robust review to identify onerous contracts?
- Are there any other areas of COVID-19 impacts that are not yet considered?

**Is management using the best available and most up-to-date information to value?**

- Where information is not available at the reporting date, has management completed adequate procedures to assess the impact of COVID-19?

**Where there is estimation uncertainty is it disclosed transparently in the financial statements?**

- Does this include sensitivity analysis?

15. Assumptions made about the future and other major sources of estimation uncertainty are set out in the Statement of Accounts. In addition, the impact of the COVID-19 crisis continues to be monitored and assessed, and reports will be submitted on a regular basis to senior management teams and to Members.

## Box G: Going concern – questions audit and risk committees could ask

### Is management's strategy or business plan from a period pre-COVID-19?

- Has this been updated? If not, is it clear why a plan from before the outbreak remains appropriate?

### Is management's forward plan robust in the context of COVID-19?

- Do forecasts represent the latest information available? Has management completed scenario-testing on its forecasts?
- Is the forward plan in line with your understanding?

### Is management's going concern consideration complete?

- Has management considered different eventualities and the likelihood of each?

### Is there substantial doubt over the entity's ability to continue as a going concern?

- Do the disclosures in the financial statements reflect the impact of COVID-19 transparently?

16. As part of the External Audit of the 2019/20 Statement of Accounts, the Authority was asked to complete a Going Concern Management Assessment Questionnaire. This was considered by the Committee in July 2020. The response set out the Authority's process for both setting and monitoring the annual budget, along with the budget reporting process in place. The response also set out the role of the Finance Resilience Group, which was established to consider the financial impact arising from the COVID-19 emergency. A report was also submitted to Policy Committee in June 2020, which updated Members on the impact of the COVID-19 crisis and the Authority's response and recovery planning.

## Box H: Events after the reporting period – questions audit and risk committees could ask

### Have management considered all relevant events after the reporting date that could impact on the organisation?

- Are these events correctly assessed as adjusting or non-adjusting events?
- Do the financial statements make clear how COVID-19 has impacted the organisation in general after the reporting period date?

### Do the financial statements appropriately recognise the events identified?

- Are the financial statements appropriately adjusted for relevant adjusting events?
- Have non-adjusting events been clearly and transparently disclosed?
- Is the value of non-adjusting events and potential impact for the organisation clear?

17. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code states that published statements of accounts shall reflect events after the reporting period up to the date the accounts were authorised for publication. The Service Director for Finance, Infrastructure

and Improvement authorised the Statement of Accounts on 7 July 2020. Where events taking place before this date provided information about conditions existing at 31 March 2020, the financial statements and notes reflect the impact of this information.

### **Box I: Control environment – questions audit and risk committees could ask**

**Were any changes needed to the design and implementation of internal controls to respond to COVID-19?**

- What has been the impact of these changes? How long are these changes expected to last? Are the changes sustainable? How significant are these changes?
- Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls? Can the negative impact of any changes be reversed?

**Where changes were made to controls, did the organisation understand where there was increased risk because of this?**

- Were other controls strengthened to compensate for this?

**Has remote working affected the operational effectiveness of internal controls?**

- Are any controls only able to be implemented in person, such as those over physical assets?
- Have changes in personnel performing the controls impacted effectiveness?

**How have IT services performed during the outbreak?**

- How has this impacted the effectiveness of controls?
- How have cyber security controls been considered?

**Where service organisations are used, have there been any changes to the design and implementation of their controls?**

- Where relevant, what has been the impact of this?

18. Several changes have been required affecting all services, especially in relation to Adults', Children's and Property services. Support services have also been affected. The strategy has been for bespoke changes to have a temporary lifespan, which should be kept under review as lockdown restrictions continue to develop. Some changes will not be operationally and financially sustainable, as demonstrated in the updates to Policy Committee on the Medium-Term Financial Strategy (MTFS). Some changes have a significant impact on future delivery of services.

19. Internal Audit has been involved in advisory work (20 pieces) to assist the redesign of services across all departments (see Internal Audit's Term 1 progress report on today's agenda). This helped to ensure an appropriate balance between control and risk, as the pace of service delivery in priority areas had to be increased. Typically, changes involved a relaxation of preventative controls at the point of payment initiation, with greater reliance on post-payment, detective controls. Internal Audit has also undertaken specific reviews of the changes to internal controls, in addition to a significant review of the Council's response to the emergency. The advisory pieces are being followed up to provide post-payment assurance over the

effectiveness with which services were redesigned, and to assess any longer-term impacts. The service is also implementing an approach to continuous auditing for key, corporate processes, to ensure exceptions to expected tolerances for key controls are routinely highlighted and acted upon.

20. The new ways of working for all Council staff resulted in a number of pressures on the Council's ICT systems. Reports to Policy Committee have set out the steps taken to restore resilience.
21. The impact of the pandemic on the Council's service delivery partners has been kept under active review, with reports submitted to Committees for decision where intervention has been deemed appropriate (for example, cultural service contract variations).

### Box J: Regularity of expenditure – questions audit and risk committees could ask

**Have there been any significant changes to the organisation's activities during the outbreak?**

- If so, have the changes required new legislation or changes to delegated authorities?

**Has the accounting officer assessed the reasonableness of increased expenditure or new activities in the context of *Managing Public Money*?**

- Have ministerial directions been required? Have these been provided?
- Are these disclosed transparently in the corporate governance report?

**Is there any new expenditure that could be deemed novel and contentious?**

- How has this been treated?

**Has management breached any control totals?**

- Have there been any other regularity breaches or contentious issues?

**Have the provisions in Procurement Policy Note 02/2020 been used by management?**

- Has management carried out and documented appropriate due diligence checks on relevant suppliers?
- Have all other *Managing Public Money* provisions applied to payments made under the Procurement Policy Note?
- Has management received open book information from impacted suppliers?

22. The activities and responsibilities of the County Council have remained consistent, but the way the activities have been delivered has significantly changed. The report to Policy Committee in March 2020 established the Council's five priorities for service delivery during the pandemic, with the required focus in particular on maintaining services to vulnerable children and adults. Changes in legislation to help local authorities cope with the pandemic emergency have been kept under review and applied where considered necessary.
23. The emergency procurement of PPE to enable essential services to continue in safe settings has been a notable priority, requiring a measured approach to balancing due diligence controls against emergency supply demands. Supply lines have now been stabilised and are moving

to a dynamic purchasing contractual arrangement. An update report on PPE was taken to Personnel Committee in July 2020.

24. The financial implications of the pandemic have been, and continue to be, closely monitored. A detailed assessment was presented to the Finance & Major Contracts Management Committee in July 2020. The Governance & Ethics Committee has also received reports of actions taken to extend some contracts, or issue direct awards, and in some cases to offer supplier relief.

### Box K: Fraud and error – questions audit and risk committees could ask

#### What exposure to fraud and error does the organisation have in its responses to COVID-19?

- Have controls been turned off or reduced?
- Are there new expenditure or procurement streams, or delivery methods that introduce new risks?

#### How is the organisation managing fraud and error risks?

- Are they logged, with a monetary estimate of the potential fraud and error exposure?
- Have options to reduce fraud and error been evaluated? Has management assessed the organisation's risk appetite for losses through fraud and error? Are there any changes to this?

#### What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?

- How is management using this information to update risk assessments or inform controls?
- Does management have real-time indicators to support informed decisions on risks?

25. Risk exposure continues to be similar given that services are continuing in a similar nature, although national trends identify increased risk through cyber-attack, working from home, procurement and supplier fraud. Changed processes increases risk in some areas, including the risk of fraud, and Internal Audit has worked with service managers to advise on the balance between risk and control for the emergency situation. The Internal Audit team has also been active in raising alerts and awareness within the Council, benefitting from its links with national and regional counter-fraud groups. Today's agenda includes the latest Annual Fraud Report, which includes details on the updated fraud risk assessment.

26. The Council's Counter Fraud Strategy and Fraud Response Plan remain in place, and referrals continue to be logged. There has not been a significant change in either the volume or nature of referrals received. The Internal Audit service remains vigilant to the possibility of latent issues yet to be exposed. As featured on today's agenda, Internal Audit's termly planning, conducted in consultation with senior managers, continues to drive out priority areas for audit focus. The latest plan for the team proposes some emphasis on post-payment assurance in areas of changed service delivery.

## **Other Options Considered**

27. The NAO guidance might have been circulated to Governance & Ethics Committee members and left to members' discretion whether they wished to make use of the suggested areas for scrutiny. Consistent with previous practice for relevant NAO guidance, it was considered that a more pro-active, self-assessment approach would provide for swifter assurance.

## **Reason/s for Recommendation/s**

28. To present members with a self-assessment of the Council's arrangements in comparison with the NAO guidance for financial reporting and management during the national pandemic. This should provide members with the opportunity to consider whether further, follow-up reports are required on this topic.

## **Statutory and Policy Implications**

29. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

1) Members determine whether any further reports or actions are required arising from this self-assessment.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement and Section 151 Officer**

**For any enquiries about this report please contact:**

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## **Constitutional Comments (KK 19/08/2020)**

30. The proposal in this report is within the remit of the Governance and Ethics Committee.

## **Financial Comments (SES 19/08/2020)**

31. There are no specific financial implications arising directly from this report.

## **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

**Electoral Division(s) and Member(s) Affected**

- All