

London Borough of Enfield

General Purposes Committee

4 August 2021

Subject: Revised Guidance on External Auditors' Work on Value for Money (VFM) Arrangements
Cabinet Member: Cllr Mary Maguire
Executive Director: Fay Hammond, Executive Director, Resources
Key Decision: N/A

Purpose of Report

1. The purpose of this report is to brief the Committee on revised guidance for External Auditors on the assessment of Value for Money applicable for 2020/21.

Proposal(s)

2. Recommended that General Purposes Committee:
3. Note the revised guidance for the assessment of Value for Money.

Reason for Proposal(s)

4. On 1 April 2020, a new Code of Audit Practice (the 2020 Code) came into force. This report sets out the guidance provided by the National Audit Office on how local auditors are expected to approach and report their work on VFM arrangements under the new Code and applies to audits of 2020-21 financial statements onwards.

Relevance to the Council Plan

5. The Council Plan is underpinned by a number of cross-cutting themes, Financial resilience and good governance, the External Audit VFM independent assessment provides assurances of the effectiveness of the Council's governance framework, value for money and financial resilience. Further effective governance, risk management and financial resilience contributes to the ability of the Council to deliver the aims of the Corporate Plan increases.

Background

6. The External Auditor are required to be satisfied that the Council "has made proper arrangements for securing economy, efficiency and effectiveness in its

use of resources”. On 1 April 2020, a new Code of Audit Practice (the 2020 Code) came into force. A key change was to provide more meaningful and more accessible annual reporting on VFM arrangements issues in key areas; provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and provide clearer recommendations to help local bodies improve their arrangements. The 2020 Code sets out a new approach to auditors’ discharging their duty to be satisfied whether bodies have proper arrangements in place to secure value for money.

7. From 2020-21 audits onwards, the key output from local audit work on arrangements to secure VFM is an annual *commentary* on arrangements, published as part of the Auditor’s Annual Report (which replaces the Annual Audit Letter). The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body’s attention, along with their recommendations for improvement. The commentary will, however, also allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council.
8. This is a different approach in that this is not a “conclusion” or an “opinion” in the same sense as the opinion on the financial statements. For 2020/21, the first year of implementation of the new methodology the NAO has set the deadline for publishing the Annual Auditor’s Report, containing the VFM commentary, as three months after the date the main audit opinion on the Financial Statements is issued.

Main Considerations for the Council

9. When reporting on these arrangements, the 2020 Code requires auditors to structure their commentary under three specified reporting criteria:
10. **Financial sustainability:** how the Council plans and manages its resources to ensure it can continue to deliver its services, including how the Council:
 - ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
 - plans to bridge its funding gaps and identifies achievable savings;
 - finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
 - ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
 - identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.
 - monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;

- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

11. **Governance:** how the Council ensures that it makes informed decisions and properly manages its risks, including how the Council:

- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

12. **Improving economy, efficiency and effectiveness:** how the Council uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and

- how the Council ensures that goods and services are procured or commissioned in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

13. For 2020-21, the nature and extent of proper arrangements, in particular in respect of financial planning and sustainability, will reflect both the significant uncertainty that bodies have operated under during the year, in particular Covid-19.

Safeguarding Implications

14. There are no safeguarding implications.

Public Health Implications

15. There are no particular public health implications to the report.

Equalities Impact of the Proposal

16. There are no Equalities impacts. There is no proposed change or alteration to any form of service provision, and no proposed expenditure.

Environmental and Climate Change Considerations

17. There are no considerations arising from the proposal.

Risks that may arise if the proposed decision and related work is not taken

18. There are no considerations arising from the proposal.

Financial Implications

19. This wider scope methodology is not covered by the existing scale fees set by PSAA. Current estimates amongst audit suppliers are that this could be around 10% of the main audit fee.

Legal Implications

20. There are no considerations arising from the proposal.

Workforce Implications

21. There are no considerations arising from the proposal.

Property Implications

22. There are no considerations arising from the proposal.

Other Implications

23. There are no considerations arising from the proposal.

Options Considered

There are no considerations arising from the proposal.

Conclusions

24. The Committee is asked to note the changes to the External Audit approach to assess value for money arrangements and the reporting arrangements.

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22 July 2021

Appendices

None