Annual Audit Letter

London Borough of Hackney

Year ending 31 March 2020

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Contents

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Hackney (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, 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	Our auditor's report issued on 21 October 2021 included our opinion that the financial statements: • give a true and fair view of the Council'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	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Following work performed by our IT audit team, in response to the cyber attack at the Council, we have now concluded that we are satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
Reporting to the group auditor	In line with group audit instructions, issued by the NAO on 4 November 2020, we reported to the group auditor in line with the requirements applicable to the Council's WGA return on 17 December 2021.
Statutory reporting	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 Council.

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 Council and whether they give a true and fair view of the Council'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 Council'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 Council’s financial position as at 31 March 2020 and of its financial performance for the year then ended. The audit report included emphasis of matter paragraphs:

- As detailed within our response to the significant risk over the valuation of the Council’s Property, Plant and Equipment, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuations.
- As detailed within our response to the significant risk over the valuation of the Council’s defined benefit pension liability, our draft auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuation of associated property investment funds held by the Hackney Pension Fund and the London Pension Fund Authority.

Our opinion on the Council's and Group's financial statements was not qualified in respect of these matters.

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.

2. AUDIT 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 Audit Committee. 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:

		Group	**Council**
Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Revenue Expenditure.	£22.51m	£22.5m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£675k	£675k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:		
	- Officers remuneration	£5k	£5k
	- Exit packages	£5k	£5k
	- Related party transactions	£0	£0

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit 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
Management override of controls		
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	We addressed this risk through performing testing in respect of: • 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	There are no significant findings arising from our review of areas of potential management override of control
Revenue recognition		
Based on our initial knowledge and planning discussions we concluded we could rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we rebutted the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts. We did not rebut the income risk relating to other material income streams within the Council, such as adult social care costs and charges for use of Council facilities, where the level of inherent risk is higher.	We addressed the risk by obtaining a detailed understanding of the Council's processes to recognise revenue in the correct accounting year. We performed the following work: • detailed testing of transactions within the 2019/20 financial statements; • testing around the year-end to provide assurance that there were no material unrecorded items of income and expenditure in the 2019/20 accounts.	There are no significant findings arising from our review of revenue recognition

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Property, Plant and Equipment valuations		
Where Council's assets are subject to revaluation, the year end carrying value should reflect the appropriate fair value. The Council has a rolling revaluation model covering a five year cycle, which may result in individual assets not being revalued for several years, which creates a risk that the carrying value of assets not revalued in year is materially different from the year end value. Due to the high degree of estimation uncertainty associated with these valuations, and the impact of the Covid-19 pandemic, we have determined there is a significant risk in this area. The Council's valuer applied a material valuation uncertainty paragraph to the valuations performed.	We addressed this risk by reviewing the approach adopted by the Council to assess the risk, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, in order to determine whether these indicate that fair values have moved materially. In addition, for assets revalued during the year we: • assessed the valuer's qualifications; • assessed the valuer's objectivity and independence; • reviewed the methodology used; and • performed testing of the associated underlying data and assumptions.	Audit work identified three material misstatements which were adjusted for. Two immaterial adjustments were not adjusted for. The Council have included a disclosure of a material valuation uncertainty in the financial statements. We have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report.
Defined benefit pension liability		
The latest triennial valuations of London Borough of Hackney Pension Fund and the London Pension Fund Authority were completed at 31 March 2019. The valuation provides the basis of the associated net pension liability for the Council as at 31 March 2020. The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., Due to the high degree of estimation uncertainty associated with valuations, we determined this to be a significant risk.	We addressed this risk by reviewing the controls the Council had in place over the information sent to the Scheme Actuaries by the fund administrators. We also: • assessed the skill, competence and experience of the actuary for each Fund; • challenged the reasonableness of the assumptions used by the actuaries; • carried out a range of substantive procedures on relevant information. Due to the potential valuation uncertainty arising from the Covid-19 pandemic we requested assurance from Pension Fund auditors on the work performed on unquoted investment valuations.	We have reviewed the confirmation provided by the Pension Fund auditors and any issues within the valuation of Pension Fund assets. The Council have included a disclosure of a material valuation uncertainty in the financial statements regarding property assets held by the Hackney Pension Fund and the London Pension Fund Authority. We have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report.

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 identified the following deficiencies in internal control as part of our audit.

Bank reconciliation – Level 2

Description of deficiency	As part of the audit we have completed a detailed review of the council's bank reconciliations and the various reconciling items that exist within them. We identified, within the reconciliation of the Council's main bank account balance, a significant reconciling item of £9.6m, which relates to items in a suspense account awaiting appropriate clearing journal adjustments. Suspense accounts should be reviewed and cleared regularly and such a significant balance should not be allowed to build up.
Potential effects	While we recognise that the balance has been reconciled and the content of the £9.6m is understood, not completing the analysis and processing the adjustments on a timely basis increases the complexity of the reconciliation process and the volume of transactions that need to be considered and tracked on an ongoing basis within the reconciliation process.
Recommendation	While we are aware that the council is in the process of ensuring the reconciling items are appropriately cleared, we recommend that the council seeks to complete this process at the earliest opportunity.
Management response	As per the comments in the "potential effects" section, the £9.6m is understood by the Council and correctly reflected in the financial statements. A more automated process is being implemented to accelerate allocation of suspense balances, and this is currently due to go live during early 2021/22.

DRC property valuations – Level 2

Description of deficiency	During the course of our review and challenge of the revaluation of land and building valuations, for DRC assets that had been revalued in year, we identified that the valuer had used an incorrect rate when calculating the valuation. A national rate had been used as opposed to a more specific, local rate. The effect of using the local rate increased the valuation by £40.1 million. An audit adjustment was posted to this effect.
Potential effects	The use of an incorrect index when calculating a valuation may give rise to a material error being recorded within the assessed value of Property, Plant & Equipment, and subsequently within the council financial statements.
Recommendation	The Council should ensure the valuation work completed, and any associated use of indices, is subject to detailed review, challenge and confirmation to ensure that the correct rate has been used.
Management response	An additional review layer has now been introduced to the valuation process, to confirm the valuation approaches applied to the various asset classifications.

Property reconciliation – Level 2

Description of deficiency	During the year, post publication of unaudited financial statements, an exercise was performed by the Finance team that compared records held in the Fixed Asset Register to those in the asset database used by the Estates team. This exercise had not previously been performed as part of the year-end reconciliation and valuation process. This matching process identified a number of assets which were not included in the Fixed Asset Register and thus were not included in the 2019/20 draft accounts. A valuation exercise has been performed on the assets in question, identifying that a value of £17.3m had been excluded from the accounts, split across investment property, other land and buildings and HRA non-dwellings. Management have adjusted the financial statements for the updated value of investment property – see page 17 for details. Management have chosen not to adjust the financial statements for the updated value of other assets, due to the size of the asset values in comparison to the overall portfolio of land and buildings held.
Potential effects	Not completing this reconciliation on an annual basis means that there is a risk that further properties are not included in the Fixed Asset Register and the financial statements.
Recommendation	We recommend that the Council incorporate the reconciliation between the Fixed Asset Register and the Estates asset database as part of their year-end procedures going forward.
Management response	Audit recommendation is accepted. The reconciliation of our Fixed Asset Register and Estates asset database has now been built into our annual business-as-usual procedures

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether the Council 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 Council 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, we were unable to conclude on our value for money conclusion. In October 2020, the Council was subjected to a cyber attack, initially affecting access to the Council's internally hosted systems for staff and the public. Since the cyber attack, the Council has been working in conjunction with the National Crime Agency and the National Cyber Security Centre in their response. An additional significant risk to our value for money conclusion was raised regarding this.

Since the completion of the financial statement audit and issue of our Audit Completion Report, our IT audit and cyber specialists have performed additional work to assess whether the Council had proper arrangements in place as at 31 March 2020 to either prevent or reduce the likelihood of a cyber security breach. This work has now been completed and will be separately reported to the Audit Committee.

We are now able to conclude that in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

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

Risk	Work undertaken	Conclusion
Financial Sustainability		
The current financial forecast shows that the Council is forecasting budget gap of £30m over the period 2019-20 to 2022-23, primarily a result of unavoidable costs. The Council has identified the need to make further savings of to be able to remain within forecast funding levels and have therefore introduced savings themes which include scrutiny panels, co-ordinated cross council approach to the deployment of resources and directorate initiatives.	We addressed this risk by • Reviewing the controls put in place by the Council to ensure financial resilience, including the development and implementation of the Medium Term Financial Strategy, and that this has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, the pandemic impact, etc. • Reviewing management actions and mitigations to deliver the budgeted position.	We have no significant issues arising from our work to report and note that he Council is continuing to respond to the challenges presented by the Covid pandemic.

3. VALUE FOR MONEY CONCLUSION

An additional significant risk was raised during the audit.

Risk	Work undertaken	Conclusion
Cyber Attack		.
In October 2020, the Council was subjected to a cyber attack, initially affecting access to the Council's internally hosted systems for staff and the public. There is a risk to the value for money conclusion that the Council did not have proper arrangements in place to prevent or reduce the likelihood of a cyber attack, that the steps taken to recover from the attack were not efficient and effective; and that lessons are not learned and additional controls are not put in place if original arrangements are found to be inadequate.	Using IT audit and Cyber specialists, we addressed this risk by considering three key questions: 1 – Did the Council have proper arrangements in place to either prevent or reduce the likelihood of a cyber security breach; 2 – Has the Council taken efficient and effective steps in recovering systems as a result of the cyber attack; and 3 – Has the Council taken efficient and effective steps in implementing further controls to reduce the likelihood and impact of a future cyber event. We plan to undertake this work as soon as is practicable	Work performed by our IT audit and Cyber specialists has confirmed that the Council had appropriate arrangements in place to either prevent or reduce the likelihood of a cyber security breach. A separate report, identifying potential improvements to the arrangements in place has been agreed with the Council and is being implemented.

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council has well developed arrangements setting out how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. The Audit Committee fulfils the expected functions of such a committee and has continued to meet regularly throughout the year, receiving reports of internal and external audit, and challenged the findings and recommendations as appropriate. During the year the Audit committee has received the results of a deep dive into SEND and has been kept up to date on the financial impact of councils decisions and involved with the work resulting from the responses to the Covid-19 pandemic. The Corporate Risk Register is formally reported regularly to HMT and to Audit Committee with a supporting analysis detailing movements in risk levels. There are a number of developed risk registers at service levels which are also subject to regular review and challenge, with presentations to the Audit Committee as considered appropriate. The Council had a Medium Term Financial Plan in place for the year ended 31 March 2020, covering the period 2022/23, and this considered factors such as funding reductions, inflation, demand pressures, and include a sensitivity analysis. Throughout the year the Mayor and Cabinet are provided with regular financial reporting including an assessment of the overall position. This has been updated and expanded to include details associated with the council's response to the Covid-19 pandemic, and its potential longer term impact, as this has developed. The 2019/20 budget, as approved in February 2019, was challenging and included both savings and an increase in Council tax to help fund the identified shortfall. The financial plan for 2020/21, developed from the MTFS and approved by Cabinet, is also challenging and included the need for further savings. The council continues to review and update this to reflect its consideration of the impact of the response to the pandemic, as well as the details from returns prepared for MHCLG, and identify its response.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	At the time of setting the 2019/20 budget, the Council had forecast an outturn overspend of approximately £6.935 million, with this being funded by the application of unspent Council Tax and NNDR Collection Fund surpluses. The budget for 2020/21 was balanced, but the Council had recognised it had to fund cost pressures and income reductions and had a need for a further £30m of savings by 2022/23 after assuming an annual 4 per cent Council Tax increase. The Council did not include the well-documented cost pressure it faced in SEND in this analysis as they have an expectation of this being at least partially funded. Prior to the setting of the 2020/21 budget the council had identified savings of around £13 million, leaving a gap of £17 million, although it had also identified other cost pressures over the life of the MTFS. When considering the savings that need to identified, the council is using five main methods to discuss and assist in identifying other savings initiatives to close the gap: - Scrutiny Panel (through Budget Task and Finish Groups) - Cabinet led working groups - HMT / Cabinet Steering groups - Co-ordinated Cross Council Approach to resource deployment - Directorate specific initiatives. Throughout these groups, there has been excellent member and officer working to achieve a common goal. While these groups continue to progress the impact of the pandemic, and in particular lockdown and any continuing restrictions, has impacted on the effective and sustainable deployment of resources. In response to its own financial monitoring needs, as well as the information requests from MHCLG, the Council performed a range of assessments and analysis on the impact, considering both changes in service delivery and costs, as well as identified and potential changes in income. These, and updates to likely cash flows, are being regularly reported internally (as well as to MHCLG) and are used by the council to manage the pandemic response and associated impact as far as can be achieved within the councils resource constraints. In view of the net revenue position for 2019/20, the setting of a balanced budget for 2020/21, its continued approach to seeking further savings, as well as the overall managed response to the pandemic, we consider the approach to securing value for money to be appropriate. We do note the unresolved funding gap that exists across the period of the MTFS (2020/21 – 2022/23) has increased significantly as a result of the COVID-19 pandemic, with the Council incurring additional costs and obtaining reduced revenue. The Council has received detailed briefing papers on the likely financial impact of the pandemic and are currently reviewing and refreshing the MTFS to take account of these changes. The capital programme is also being reviewed and refreshed. .	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Council works with a range of third parties, for example, working with Hackney Clinical Commissioning Group (CCG) to reduce emergency admissions and provide as much support as possible in a social care setting. During the course of the year the Council received the results of the latest Ofsted inspection of Children's services, which rated the service as 'requires improvement'. In response to this, and prior to the pandemic, the council have developed a whole council response and were developing a plan to move the council to Good and onto Outstanding. While plans are in place, the pandemic has had an impact on the initial delivery of the response, although these are considered to be achievable in the short to medium-term. The Council also received an updated review of Housing with Care from the Care Quality Commission (CQC). The previous review, in 2019 rated performance as 'inadequate', and the follow up has recognised that improvements have been made and the overall assessment has improved to 'requires improvement' as a result, with some aspects rated as 'good'.	Yes

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
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 Council'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, and to carry out certain tests on the data. We submitted this information to the NAO on 17 December 2021.

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 Council. 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 Council's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2020.

We are in discussion with the Group Director, Finance and Corporate Resources regarding our final fee for 2019/20. Our proposals are set out below.

Area of work	2019/20 proposed fee	2019/20 final fee
Agreed fee for delivery of audit work under the NAO Code of Audit Practice	£174,266	£174,266
Additional fees		
Work required to meet regulatory requirements	-	£5,075
Cyber-attack review	-	£10,085
Group accounts	-	£,5,062
Covid-19 impact	-	£4,512
Use of valuation specialists	-	£6,016
Total Fee	**£174,266**	**£205,616**

Fees for non-PSAA work

Area of work	2019/20 proposed fee	2019/20 final fee
Housing Benefit subsidy assurance	£22,000	£22,000
Teacher's Pensions	£3,750	£3,750
Pooled Housing Capital Receipts	£4,550	£4,550
Total non-PSAA fees	**£30,300**	**£30,300**

Fees for other work

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

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 managers 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.

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 will now be 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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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws