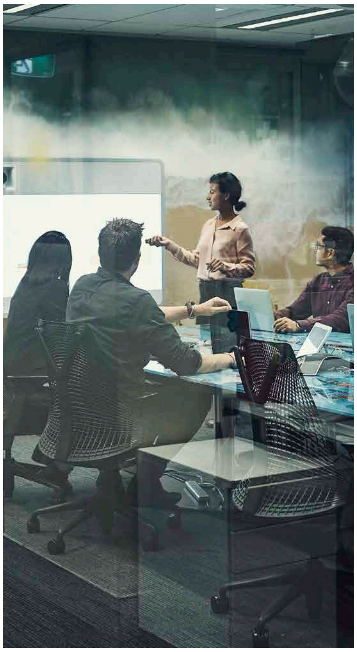
Local Government Audit Committee Briefing

Quarter 4, December 2019

Building a better working world

Contents at a glance



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.

Government and economic news

EY Club item

Economic forecast – EY Club item

The latest EY ITEM Club forecast highlights that continued uncertainties – including those surrounding Brexit – and the weak economic global environment continue to weigh on the UK economy post the General Election. Fiscal policy will be more supportive than previously planned, with the 2020/21 spending review indicating that public spending will rise by 4.1% in real terms. This briefing considers the prospects for social care funding and the housing crisis.

The EY ITEM Club anticipates that continued Brexit uncertainty will restrict UK economic growth in 2020

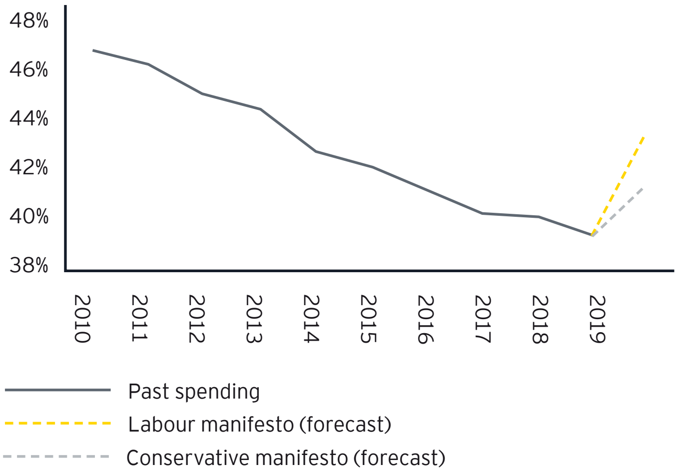
The EY ITEM Club's autumn forecast predicts relatively weak UK GDP growth of just 1.0% in 2020. This reflects an assumption that the UK will leave the EU at the end of January with Boris Johnson's withdrawal agreement, in addition to the fact that uncertainty around the UK's future relationship with the EU remains. This is likely to limit any recovery in business investment in the immediate future. Geopolitical and trade pressures weighing on the global economy are also likely to cause a drag on the UK economy.

UK GDP growth for 2019 remains on track to be 1.3% in 2019, in line with past EY ITEM Club forecasts and representing a slight decline on the 1.4% figure for 2018. By comparison, 1.0% in 2020 would be a significant decline, and this is likely to have important consequences for local government.

Local authorities will likely need to continue to be innovative to deliver high quality social care

Chancellor Sajid Javid has pledged public spending increases of 4.1% in real terms in the 2020/21 spending review – the fastest increase in 15 years – whilst it is anticipated that the Budget for 2020/21 will contain further fiscal loosening measures. Austerity to the extent of the past decade appears to be at an end.

Figure 1: UK public sector spending (% of GDP)



Sources: Office for Budget Responsibility; BBC

Despite this, the Conservative manifesto pledges maintaining the £1bn of grant funding announced in the last spending review for the duration of the next parliament as well as £500mn of funding for potholes (in contrast with an extra £13bn proposed by the Labour manifesto).

The Conservative manifesto is light on detail on social care reform that has been anticipated in the continuously delayed green paper. On top of the maintenance of the £1bn of grant funding, they refer to the need for more staff, better infrastructure and a new entitlement to an extra week of leave for people undertaking care on an unpaid basis. But this falls short of a long-term solution, which the Conservatives have stated needs to come from cross-party consensus. It also does not indicate how the manifesto commitment that 'no one needing care has to sell their home to pay for it' will be achieved.[1]

Until more clarity emerges in this regard, local authorities may continue to be financially and operationally squeezed in their delivery of social care. This is compounded by the fact that there were 136,000 job vacancies in the health and social work sector (17% of all UK vacancies),[2] whilst labour markets remain tight, with unemployment of 3.9% just one percentage point above the joint-lowest level since 1974. Despite this, continued funding constraints will mean that badly needed wage growth in the sector is unlikely to materialise to a great extent in the next year, even given recent strong economy-wide wage growth. Furthermore, UK wide productivity remains low, with Q2 2019 being the fourth consecutive quarter without growth.

The housing crisis remains a major pressure on local government

The latest RICS survey indicated that average housing stock levels on estate agents' books in September were close to the lowest level in the survey's history. Housing market activity is also forecast to remain below the 2016 peak until at least 2023. The Government's initiatives to boost house building will take time to have a significant effect, so are unlikely to markedly influence housing availability in the short term at least. In addition, the proportion of new houses that will be affordable must also be seen as a significant measure as to the effectiveness of central government policy dealing with the housing crisis.

Local authorities therefore continue to take up the mantle in combating the crisis, with 78% of councils having a housing or property company as of March 2019. Councils are finding different ways of delivering, developing their own land in some cases and making acquisitions in others, working with different types of partners and providers, and applying focus to affordable housing and various specific-need groups (such as the elderly).[3]

Certainty elusive as Brexit continues to dominate the political agenda

The Conservatives' primary election campaign promise to 'Get Brexit Done' only represents the beginning of a long process of trade deal negotiations, both with the EU and other third partners. The Government has stated its intention to negotiate a deal with the EU next year, not extending the implementation period beyond 2020. That said, the delays to the withdrawal agreement process suggest that it is difficult to guarantee this. Furthermore, the Government plans to agree new free trade agreements to cover 80% of UK trade over the next three years.[1] Economic and political uncertainty are therefore likely to remain prominent during this period, if not beyond.

[1] The Telegraph, 'Conservative Party manifesto 2019', 10 December 2019, [online]. Available at: https://www.telegraph.co.uk/politics/2019/12/10/conservative-manifesto-2019-nhs-election/

[2] Office for National Statistics, 'Vacancies and jobs in the UK', 12 November 2019, [online]. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/november2019

[3] Inside Housing, 'Councils are finding their building confidence', 15 March 2019, [online]. Available at: https://www.insidehousing.co.uk/sponsored/sponsored/councils-are-finding-their-building-confidence?

Central government is therefore likely to remain focused on international trade and relations over the next few years. It will become increasingly important for local government to continue to play a leading role in society, delivering vital services for local residents. There is little in the EY ITEM Club's forecasts to suggest that the economy will provide much support in meeting these challenges.

The need for innovation to improve the social care system's capacity

The lead up to the UK election saw all major political parties making proposed commitments to expand social care. The newly elected Conservative government has stated that the social care system needs to 'give every person the dignity and security they deserve'. Aside from a commitment to maintain the extra £1bn of grant funding, there has been little further detail about what social care reform may happen in the term of the Parliament.

This financial commitment contributes, albeit probably not sufficiently, to the proposed funding gap. However, funding in the social care system is not the only shortfall; recent research by the Nuffield Trust has suggested there are 165,000 over 65s with unmet care needs and providing these with just two hours of care a day would require 90,000 new home care workers. This doesn't consider any other forms of social care, such as adults with special or complex needs. Therefore, the shortfall of 90,000 care workers is likely to be a prudent figure.

Successful expansion of the social care system will be heavily influenced by macroeconomic conditions.

Any expansion of the social care system in the UK will need careful consideration of the existing conditions in the labour market. The current unemployment rate of 3.9% stands at near record low levels. However, despite nominal wage growth standing at its highest rate since 2008, real wage growth remains near zero. These conditions will make it challenging to expand the workforce of the social care system without significantly increasing spending or looking for alternative means of delivery.

It is possible to establish an economically sustainable social care system.

There are examples of successful social care system transformations from across the globe that provide insightful lessons for potential reform in the UK's social care system.

In 2013, the Australian Government introduced a universal social care system referred to as the National Disability Insurance Scheme (NDIS). The NDIS entitles people with a 'permanent and significant' disability (under the age of 65), to full funding for 'any reasonable and necessary' support needs relating to their disability (subject to certain restrictions). Funding is allocated to the individual, and the individual or their guardian chooses which providers supply the funded goods and services (subject to other restrictions). The scheme is entirely publicly funded.

Research commissioned by the Australian Government in 2011, found that by approximately 2025 the cost of maintaining the status quo in relation to the care of people with a disability would be greater than the cost of an NDIS. The status quo heavily relied on a fragmented funding system of grants that offered little long-term security for those with disabilities. A broken system was deemed to be constraining those with special needs' ability and the ability of their carers to participate in Australian society. Other downstream costs of the status quo included those seen in the criminal justice system, health system, homelessness and costs relating to social isolation.

Expanding social care requires innovation and careful consideration of labour supply and community needs.

There was a clear need to overhaul the social care system in Australia, however it meant the disability sector in Australia would need to double its workforce to meet the needs of the NDIS. Consultations on the NDIS to date have highlighted several key issues that would be of important consideration in the proposed expansion of social care in the UK:

- **Vulnerable clients:** the communities that some providers serve may have complex and more pressing needs, including isolation, complex disability support and challenges in self-determining their needs. These clients require more highly qualified staff to service their needs.

- **Higher operating costs:** low client numbers (or difficulty in finding connection with clients that are in a region), and/or highly dispersed clients result in high per-client costs under existing staff utilisation.
- **Workforce:** challenges in recruiting and retaining qualified workers as well as providing learning and development opportunities.
- **Temporary supply gaps during transition:** temporary supply gaps during transition to full implementation of the scheme, where some supports (such as certain specialist supports and Allied Health services) take time to reach levels required to meet demand.
- **Geographic isolation:** physical distance and travel time results in high costs for service delivery for isolated or highly dispersed communities.

Many of these challenges would likely impact any proposed expansion of the social care workforce in the UK too. Focus should therefore be applied to mitigating these during the formation of any associated policy. However, what else should be considered in the need to expand social care?

The need to improve capacity

The call to expand the social care system pertains to the current and growing challenge of lack of capacity in the system. Whilst expanding the workforce is one means to try and tackle this, so is improving productivity. Where significant workforce challenges exist, then focusing on technologically enabled productivity gains is likely to be crucial.

There are a range of opportunities through which technology has the potential to improve the productivity of the social care system:

- **Managing front-door demand**: predictive analytics can now be used to identify risk and vulnerable groups to proactively target interventions before demand materialises.
- **Making existing service delivery for staff more efficient:** Robotic Process Automation (RPA) and Artificial Intelligence (AI) applications provide improved productive capacity and flexibility for staff through streamlined processes and automated administration tasks, allowing staff to focus on supporting user needs.
- **Technology-enabled care**: assistive technology provides a vehicle to personalise and tailor support, reducing intrusion whilst providing a platform for connectivity and care, such as virtual reality empathy training, real time care monitoring and work flowed predictive analytics.
- **Procurement and commissioning**: data driven decision making through predictive analytics, digital care planning and eBrokerage now provides an effective platform for evidence-based outcome-focused commissioning.

It is vital that any proposed expansion of the social care system doesn't purely focus on increasing the number of social care workers. The system needs fundamental transformations in its digital infrastructure and it is through the productivity gains that can be yielded from those, that the system can best overcome its capacity challenges.

The EY ITEM Club forecast for the UK economy, autumn 2019

% changes on previous year

	GDP	Domestic demand	Consumer spending	Fixed investment	Exports	Imports
2017	1.9	1.2	2.2	1.6	6.1	3.5
2018	1.4	1.4	1.6	-0.1	-0.9	0.7
2019 (forecast)	1.3	2.3	1.2	-0.3	-0.1	4.3
2020 (forecast)	1	0.8	1.4	-0.4	1.1	0.3
2021 (forecast)	1.5	1.8	1.8	2.7	2.5	3.1
2022 (forecast)	1.7	2	1.9	2.3	3.2	3.8
2023 (forecast)	1.8	2	2	2.6	3.5	3.7

Future Funding for Vital Services

Research conducted by the Institute for Fiscal Studies (IFS) has predicted that council tax revenues will significantly fall short of the funding required to provide key services, including social care. If council tax revenues increase at their current rate in line with inflation at 2% then this would result in a shortfall of £4bn by 2024/25, rising to £18bn by the mid-2030s. An increase in council tax by 4% per year would still result in a shortfall of £1.6bn by 2024/25 and £8.7bn by 2034/35. There have been calls within the local authority sector to significantly reform and address the issue of long-term sustainable funding for social care.

The research has also concluded that councils have cut other services by up to 40% since 2010 in order to protect social care spending. Local authority budgets are under significant pressure due to a decade of funding cuts from central government and increased cost pressures from increased demand for services. The IFS has found that budgets of local authorities are increasingly focused on fulfilling statutory duties and focusing spending on those that need it the most, as opposed to providing equitable services to all. This has resulted in significant cuts to a range of services previously provided by local authorities that are not required under statute. For example, per-person spending on culture and recreation is 50% lower in 2019/20 compared to 2009/10.

Similar analysis conducted by the Trade Union Congress has found that funding for key local services related to social care, waste management and transport have fallen by, on average, 16% since 2010. There were significant regional variations with the North East and North West regions showing a fall of 20% compared to 2010 levels, whilst some metropolitan boroughs in London had a 30% decrease.

Local authorities have become increasingly more reliant on council tax and business rates income. Excluding educational spend, half of all spending is funded from council tax whilst 30% of spend is funded from business rates. With reform of business rate retention and Fair Funding reviews on the horizon, it is likely that councils will become even more reliant on council tax and business rate income. Consequently, authorities with a smaller tax base may find that their sources of revenue fall behind neighbouring authorities with a larger tax base.

Public Works Loan Board (PWLB) Interest Rate Increase

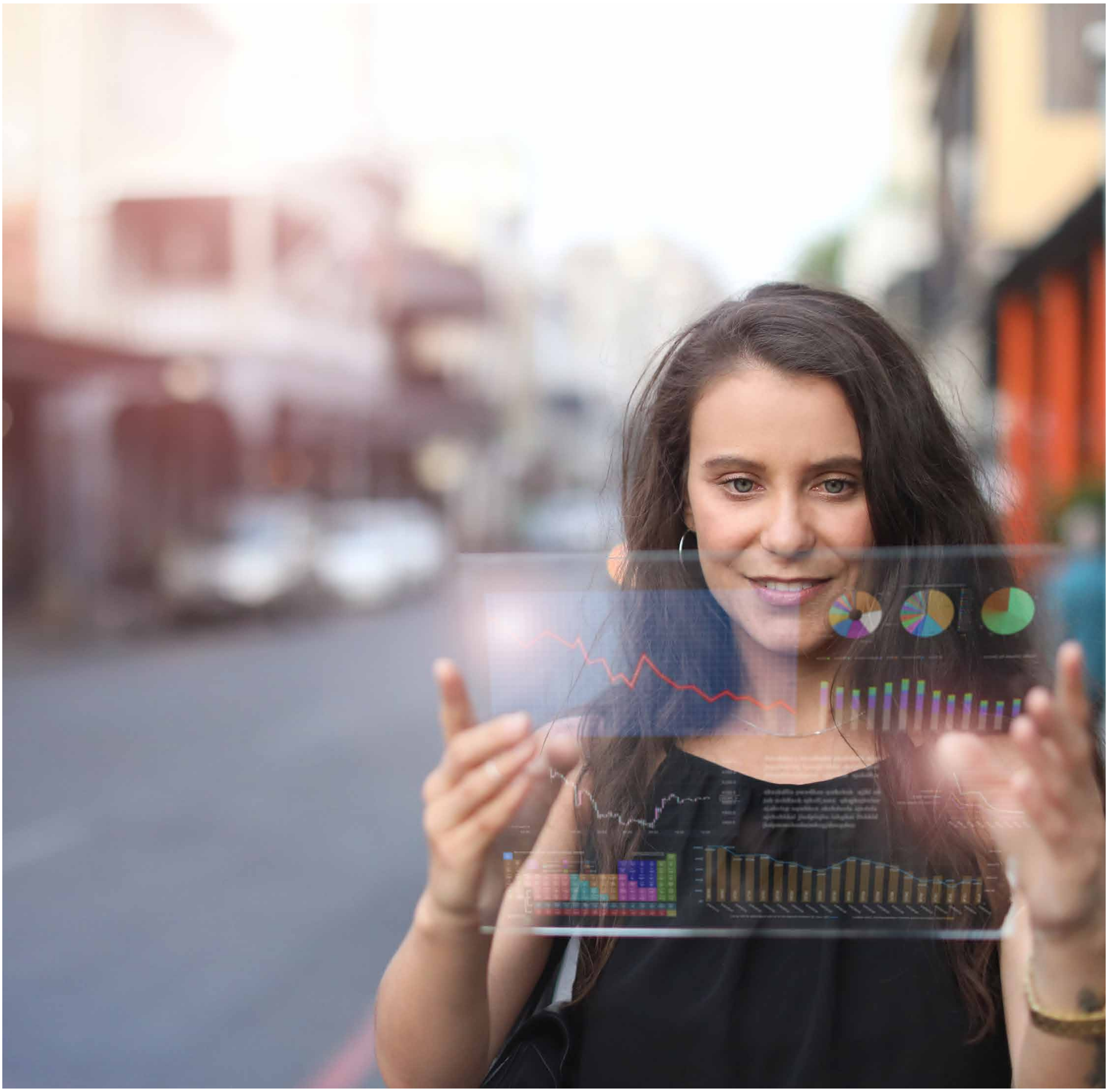
On 9 October 2019 HM Treasury announced a 1% interest rate increase for all new PWLB loans with immediate effect. The Secretary of State for Housing, Communities and Local Government noted that this was a necessary step to control the increase and dependency on PWLB borrowing. Total PWLB borrowing increased by 72% from 2017/18 to 2018/19 to £9.1bn new loans across all local authorities before this interest rate hike.

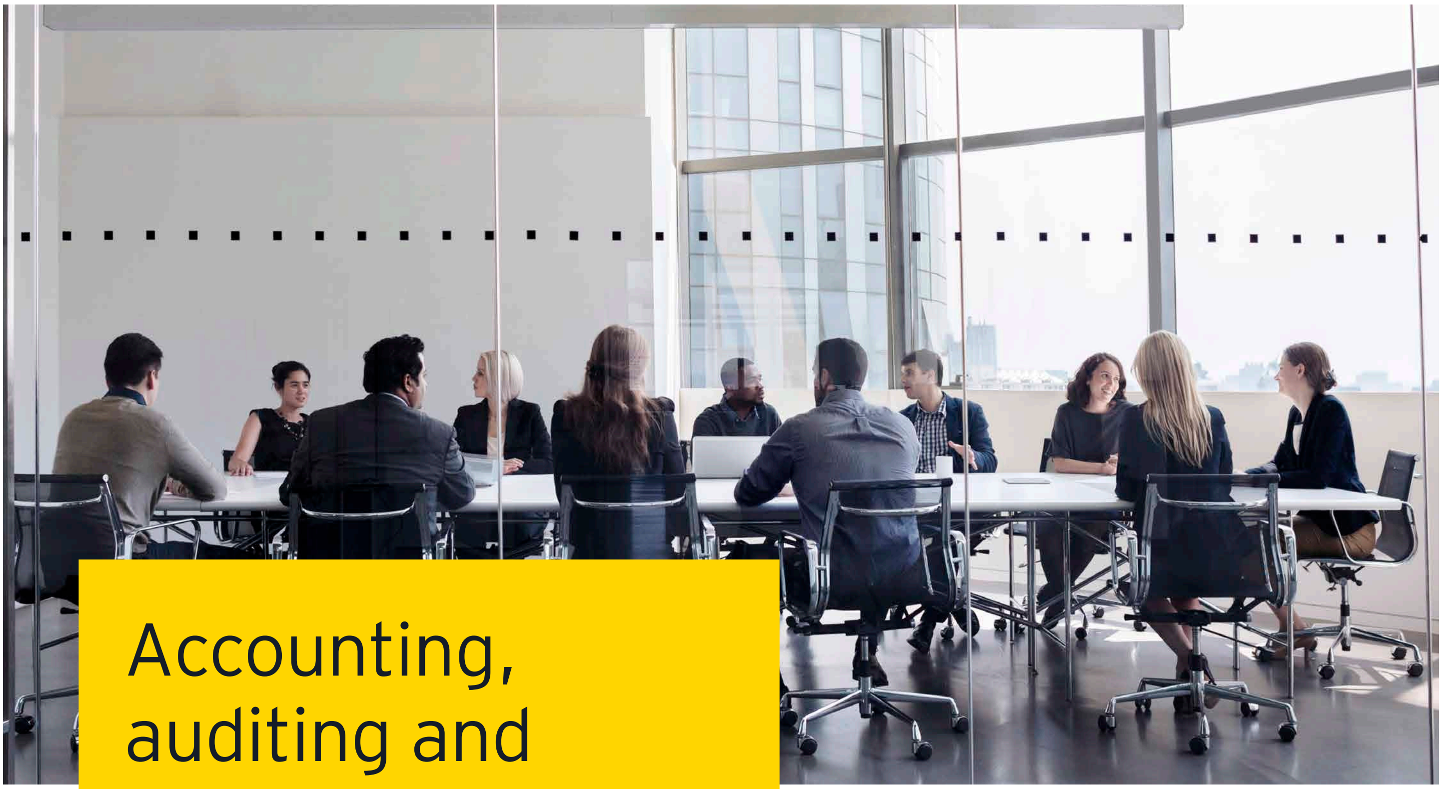
A spokesman from the Local Government Association (LGA) has commented that this PWLB rate increase could cost councils an extra £70mn a year. This may put at risk many vital capital schemes, including the construction of much needed council houses, which may now be delayed or cancelled due to unaffordability. The London Councils umbrella group have also indicated that the interest rate increase is likely to have a 'severe impact' on housing and regeneration schemes.

The credit rating agency Moody's has commented that the PWLB interest rate increase is overall 'credit negative' for the sector as the cost of capital for local authorities on new borrowing will increase in the short term. However, in the long term, the increase in interest rates should reduce the overall level of debt accumulated in the sector.

Moody's have also predicted that the rate hike will deter some councils from borrowing to invest in commercial property schemes with marginal returns. This comes as the chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), Rob Whiteman, has commented that central government has concerns on the types of commercial property investments entered into by local authorities. Some of which are controversial due to the scale of borrowing and the increase in exposure to economic volatility for local authorities. He warned that 'the PWLB [interest rate] hike was a very blunt instrument' and does not help the sector as whole. However, if controversial commercial investments continue within the sector then it is likely that central government will impose greater regulation upon local authorities, or even sanctions if CIPFA's Prudential Code is not adhered to.

The initial impact of the interest rate increase on PWLB loan borrowing has suggested that the value of new loans drawn down in October 2019 has decreased by 71% compared to September 2019. In response to interest rate hike councillors and mayors from multiple London Boroughs have written to the Chancellor of the Exchequer calling on him to reverse the increase.





Accounting, auditing and governance

Going Concern

In response to recent well-publicised corporate failures, the Financial Reporting Council (FRC), the regulator of external auditors, has issued a revised standard on going concern, International Standard on Auditing ('ISA') (UK) 570. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019 (e.g., the 2020/21 accounts), with early adoption possible.

The uncertain economic environment, risks arising from Brexit and weakness in the retail sector due to falling consumer spending mean increasing risks around going concern in the corporate sector. These risks are also prevalent, to a lesser extent, in local government. Public interest expectations around the work of auditors on going concern, and the FRC's expectations on how we robustly challenge management, have also never been higher.

The revised standard increases the work auditors are required to perform when assessing whether an entity is a going concern. As a starting point, the expectation of the regulator is that there are going concern uncertainties in every business which must be identified by the auditor, before a robust consideration of management's assessment is carried out. This requires auditors to perform:

- An enhanced risk assessment to inform the auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias:
  - If we identify events or conditions that management did not, further procedures are required including consideration of control weaknesses and risk of fraud.
  - The testing of management's method of assessment, assumptions, the relevance and reliability of data, management's future actions and events since management's assessment are more explicitly described in the new standard, although many of the required steps will reflect current best practice.
  - The evaluation of evidence when we draw our conclusions on going concern includes a stand back requirement to consider all the evidence obtained (whether corroborative or contradictory) and consideration of management bias even if all judgements and assumptions are individually reasonable.
- Financial statement disclosures around going concern now need to be considered for 'appropriateness' not 'adequacy'.
- Extended requirements to report to regulators where we have concerns about going concern.

Your local audit team will provide further details later in 2020 on what these changes might mean for the work management must perform on going concern and the expectations of the audit team.

Public Sector Audit Consultations

There are two recent consultations which may change the shape of public sector financial reporting and auditing. These are:

- Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Call for Views) led by Sir Tony Redmond.
- Local audit in England — Code of Audit Practice — Draft Code Consultation led by the National Audit Office (NAO Code).

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity and risks facing public sector bodies.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole (e.g., public bodies governance, controls, reporting and auditing). This should include changes to how local auditors conduct and report on local public bodies' Value for Money arrangements.

We also believe that increased transparency of reporting to local taxpayers and other users of accounts is needed to improve the effectiveness of local public bodies' corporate governance, financial position, risk appetite and rationale for significant decisions.

The Call for Views and changes to the NAO Code comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the outcomes from the Call for Views, and the finalisation of the NAO Code, is closely aligned with the outcome of these various reviews.

We have responded to both consultations and are committed to work with Sir Tony Redmond, the UK government and the NAO in support of improving the transparency and sustainability of public sector financial reporting and external audit. In our next briefing, we will share the key messages in our responses to both consultations. We encourage Audit Committees to be aware of and contribute its views to these important consultations and developments and your Engagement Lead will be happy to discuss these matters with you.

CIPFA Publications: Financial Management and Commercial Investments

On 11 October 2019 CIPFA launched its first financial management code in 15 years. The financial management Code (FM Code) is designed to help officers navigate the increasing complex issues of public sector finance, including financial sustainability. The FM Code requires all local authorities, including police, fire and other authorities, to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability, introduces a framework of assurance and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and the leadership team. Ultimately the FM code aims at improving financial decision making.

The FM Code is built on elements of other CIPFA codes and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

CIPFA chief executive, Rob Whiteman, said that 'CIPFA's ambition was to embed good financial management as an organisational responsibility … and move towards a sense of collective responsibility when it comes to finance.' The National Audit Office Auditor General, Gareth Davies, welcomed the new financial management code as it will help local authorities to improve their standards of financial management and cope with the financial challenges they are facing.

CIPFA has also issued new guidance for local authorities on what is expected from them when commercial property investments are made. The institute has warned that authorities must not borrow more than, or in advance of, their needs purely in the interest of profit. The cornerstone of this new guidance, published on 15 November 2019, is that under the prudential framework local authorities should not put public money and services at risk to the extent that an investment bank or commercial investor may legitimately do with their shareholders' funds.

Other news

Green Revolution

Although 230 English councils have declared climate emergencies over the past year, there has been a slow rollout of industrial strategies and policies to implement clean growth development opportunities. Climate action groups are calling on a proportion of the UK Share Prosperity Fund to be ringfenced for climate projects that enable clean growth. This would assist the Government to achieve its net zero carbon target by 2050 through implementation of local schemes. The Green Alliance's head of policy has called on local policy makers to put clean growth at the heart of local industry strategies to attract industries of the future and to enable local resilience in a world affected by climate change.

The Friends of the Earth group have analysed and ranked each local authority based on their green credentials. The group is calling on all local authorities to do more to combat climate change, including improving the energy efficiency standards of new build homes. A poll by Unison and ComRes suggests that if councils were to receive increased funding, 39% of the public would like additional money to be spent on prioritising refuse and recycling.

The LGA's environmental spokesperson has suggested that a joint national task force led by councils should be set up to drive initiatives to make councils more climate friendly. The LGA has also indicated that national climate change targets are unlikely to be achieved unless councils are given long term funding and devolved powers to combat climate change. The chair of the County Council Network has called on the government to engage with local authorities to provide genuine devolution and sustainable funding framework.

EY audit quality and transparency reports

This year, for the first time, EY is publishing a UK Audit Quality Report alongside our UK Transparency Report and both reports are now available on ey.com.

As our profession continues to face scrutiny, we believe it is vital that we are as open and transparent as possible. Together these reports aim to achieve this by setting out how we're addressing our public interest responsibilities and delivering high quality audits.

Our Audit Quality Report sets out the actions we've taken over the last five years to improve audit quality and, importantly, those that we will focus on in the future. We hope that by sharing the details of our long-term and future investment plans with you, this will instil confidence in our commitment to quality.

Audit Quality

We understand our role in society is to serve the public interest. Delivering consistently high quality audits is how we play our part in restoring and sustaining confidence. A commitment to audit quality starts at the top of the organisation. EY leaders set a clear tone from the top by promoting, maintaining and demonstrating a culture based on a commitment to quality, integrity, and collaboration.

It is also critical that we create an environment where our teams are supported to deliver high-quality audits. We have established the Audit Quality Board ('AQB') to take a lead in setting this tone and we hold regular events and issue communications to reinforce a priority on audit quality.

The importance of setting the right expectations for all our audit teams is why 'tone at the top' is the first pillar of our Sustainable Audit Quality ('SAQ') programme.

We have already made significant investments to improve audit quality over the last five years through our SAQ programme. We began this programme in 2014 when we set up the UK AQB and our Audit Quality Support Team and launched annual Audit Quality Summits for our partners and senior staff. Since then, our approach to partner and staff remuneration has been focused on ensuring audit quality is reinforced as a critical factor in determining pay awards.

Our investment in audit quality is now £25mn a year higher than in 2014; however, we recognise that there remains more to do. We will continue to invest to meet the expectations of all our stakeholders and society as a whole.

Exceptional Talent

The competition for talented people with the right mindset to deliver high-quality audits has never been higher. As a result, the profession continues to face challenges with recruiting and retaining the right number of people with the right skills. This has been exacerbated by the increased demands and pressures that the profession is facing in the current environment. We are committed to attracting, developing, inspiring and retaining outstanding audit professionals and promoting an inclusive culture for them to be able to deliver to the best of their abilities. We have been recruiting, and continue to recruit, across our business and aim to deliver an exceptional experience for our people throughout the recruitment process their career.

Accountability

Society as a whole and our regulators rightly expect us to be accountable for the work we perform. Without this accountability being recognised and responded to at all levels in the audit process, we will not achieve the improvements we need to make in delivering consistently high quality audits. We believe that, as auditors, we are accountable not just to ourselves, but to our teams, our organisation, our stakeholders and the public interest. We have embedded a culture of accountability at all levels of the audit process, whilst also providing the support necessary for our people to take responsibility for their work. We are further reinforcing the importance of accountability through the SAQ programme, our quality ratings and our partners' performance evaluations. Monitoring our audit performance and the effectiveness of our actions to improve audit quality is a key part of our system of quality control and the activities of the AQB, ensuring that we hold ourselves fully accountable for the quality of work we do.

Audit Technology and Digital

The extent to which the entities we audit create and use data has increased significantly. This generates a unique opportunity to drive greater assurance and hence improve audit quality through the appropriate analysis of this data. During the past five years, we have been undergoing an unprecedented transformation in our capability to leverage and interrogate the data created by the entities we audit and in improving our own technology supporting the audit process. This allows us to increase audit quality not only through improved data analysis, but also through using technology to improve project management, timely review and resolution of issues identified in our audits.

To take advantage of the opportunities offered by innovative technologies in every EY audit, we have transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as EY Digital GAM, this new approach has been piloted in 2019 and will be phased in globally from 2020. Digital GAM is powered by our digital audit technology, using this to embed data analysis and automated techniques in all phases of the audit. It also simplifies certain tasks and improves linkage from one audit procedure to another.

This updated methodology will further enhance audit quality through:

- The standardising or automating of routine audit tasks, enabling teams to focus on identified anomalies or higher risk judgemental aspects of the audit; and
- Providing greater clarity on the risks inherent in an organisation, driving a more focused audit approach.

Simplification and innovation

A natural response to regulatory inspection findings and the pressures we face to deliver the highest quality audits is to do more and more work; however, if this is not targeted in the right areas or effectively performed, it can actually be counter-productive. The quality of our audits is improved where we can also deliver simplification and innovation in the way we perform and document our work. In a world of ever-increasing complexity and data availability, we have innovated our audit technologies and approach — not only to stay ahead of these changes, but also to use them to our advantage and improve audit quality. Where possible, we have also used this opportunity to simplify our work, giving our audit teams greater clarity on key risks and increased time to focus on these.

Enablement and Quality Support

The complexity of the organisations we audit continues to increase, making risk assessment and key audit judgements ever more difficult. At the same time, the expectations of all our stakeholders for us to perform high-quality audits and provide trust and confidence also increases. We have to ensure that we have the right support for our audit teams to help them address complexity, challenge management appropriately and document our judgements clearly. We have always provided, and continue to provide, technical accounting and risk management support to our audit teams as required. Since 2014 we have significantly increased the level of support provided to individual audit teams, particularly those on our most challenging and complex audits. This includes coaching programmes and coaching kits, as well as other processes designed to improve audit quality. Importantly, we also routinely monitor audit quality indicators and have in place processes to learn quickly from both positive and negative quality outcomes.

There is no doubt we are in challenging times and there is uncertainty ahead. Our main focus will continue to be on delivering high-quality audits and we have every confidence that the steps we have taken, and those we plan to make, to deliver audit quality are the right ones. We will continue to support our audit teams through the investment in technology, processes and, most of all, in our people. Our purpose must be to deliver audits of the highest quality and provide confidence to the capital markets and other stakeholders.

Our Transparency Report, meanwhile, sets out what we do as a firm, how we're structured and governed, how we manage risk and comply with regulation, and how we performed in FY19. During the year we established our Audit Risk Committee, to expand our risk-scanning processes on audits. The goal is to ensure that we appropriately identify high risk clients and sectors and tailor our approach to them. Looking ahead to 2020, we have a number of priority areas which include additional investment in people, increasing the scope of our Audit Quality Support Team, championing new ideas and innovation and enhancing our focus on promoting the desired culture and behaviours for audit quality.

We hope these reports offer a useful means to assess our policies and processes for maintaining independence and complying with relevant standards and regulations.

Key Questions for the Audit Committee

Future Funding for Vital Services

What is the largest cost pressure or funding gap for your authority? What actions are your authority taking to address future budget gaps in the medium to long term?

To what extent is your authority reliant on its tax based to fund services?

Public Works Loan Board (PWLB) Interest Rate Increase

What impact has the PWLB interest rate increase had on your authority? Has your authority reviewed the continuing financial viability of its commercial investments?

How does your authority intent to achieve its capital strategy objectives considering the PWLB interest rate increase?

Going Concern

Have you discussed with your auditors what impact the revised standard on going concern will have on your consideration of going concern and the changes to your audit?

Public Sector Audit Consultations

Did your authority participate in the public sector audit consultations?

What reforms do you believe are key to the future sustainability of public sector financial reporting and auditing?

CIPFA Publications: Financial Management and Commercial Investments

How has your authority adopted and implemented CIPFA's new Financial Management code?

What impact does CIPFA's guidance on commercial property investments have for your authority? Do the authority's commercial activities place the public's money at risk?

Green Revolution

How does your authority's local industrial strategy enable clean growth?

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Future Funding for Vital Services

https://www.publicfinance.co.uk/news/2019/11/major-gap-between-council-revenue-and-funding-needed-says-ifs

https://www.publicfinance.co.uk/2019/11/ifs-councils-sacrificing-other-services-protect-social-care

Public Works Loan Board (PWLB) Interest Rate Increase

https://www.publicfinance.co.uk/news/2019/10/increased-pwlb-interest-rate-rise-puts-capital-projects-jeopardy

https://www.publicfinance.co.uk/news/2019/11/whiteman-councils-risky-commercial-deals-could-prompt-increased-regulation

Going Concern

https://www.iaasb.org/publications-resources/international-standard-auditing-isa-570-revised-going-concern

Public Sector Audit Consultations

https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/

https://www.gov.uk/government/news/call-for-views-for-independent-review-into-local-authority-audit

CIPFA Publications: Financial Management and Commercial Investments

https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code

https://www.publicfinance.co.uk/news/2019/10/cipfa-unveils-financial-management-code

https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment

Green Revolution

https://www.publicfinance.co.uk/news/2019/10/councils-need-funding-and-powers-create-greener-local-strategies

https://www.publicfinance.co.uk/news/2019/10/local-authorities-need-be-more-environmentally-friendly

EY Reports on audit quality and transparency

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-audit-quality-report.pdf

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EY-000112960.indd (UK) 12/19. Artwork by Creative Services Group London.

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