

AUDIT COMMITTEE

Tuesday, 31 January 2023

6.00 pm

Committee Rooms 1-2, City Hall

Membership:	Councillors Rebecca Longbottom (Chair), Jackie Kirk (Vice-Chair), David Clarkson, Thomas Dyer, Gary Hewson, Calum Watt and Emily Wood
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Democratic Services, Jaclyn Gibson, Colleen Warren, Amanda Stanislawski. and Andrea Ripley

A G E N D A

SECTION A

Page(s)

A training session will be held immediately prior to the start of this meeting at 5.00pm in relation to Treasury Management

- | | |
|--|-----------|
| 1. Confirmation of Minutes - 13 December 2022 | 3 - 10 |
| 2. Declarations of Interest | |
| Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary. | |
| 3. 2022 Homes England Compliance Audit Results | 11 - 18 |
| 4. Treasury Management Policy and Strategy | To Follow |
| 5. External Audit - Progress Report | 19 - 44 |
| 6. Appointment of External Auditor | 45 - 48 |
| 7. Audit Committee Work Programme | 49 - 60 |

This page is intentionally blank.

- Present:** Councillor Rebecca Longbottom (*in the Chair*)
- Councillors:** Jackie Kirk, David Clarkson, Thomas Dyer, Calum Watt and Emily Wood
- Independent Member:** Jane Nellist
- Apologies for Absence:** Councillor Gary Hewson

44. Confirmation of Minutes - 15 November 2022

RESOLVED that the minutes of the meeting held on 15 November 2022 be confirmed and signed by the Chair.

45. Declarations of Interest

No declarations of interest were received.

46. Matters Arising

The Chair referred to minute number 34 in relation to recruitment to the vacant posts in the Audit Team and requested an update.

Amanda Stanislawski, Audit Manager, responded that the posts were currently being advertised and the closing date was on 17th December 2022, there had been some applications received. The University contact details had been provided and Jaclyn Gibson, Chief Finance Officer would be in contact with the University to try and recruit to the posts if unsuccessful this time.

47. Internal Audit Progress Report

Amanda Stanislawski, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during November 2022, as detailed at Appendix A
- b. advised that currently 48% of the revised plan had been completed. There were six pieces of work in progress, two of which were at draft report stage. There had been one change made to the revised plan which had removed one audit and replaced it with another
- c. reported that one report had been issued since the previous progress report in November, this was the ICT Programme and Project Management report which had been given a Substantial assurance rating
- d. explained that the Council continued to co-ordinate the submission of information for the National Fraud Initiative and all data sets required by 18th November had been submitted

e. detailed the content of the report covering the following main areas:

- Progress against the plan
- Summary of Audit work
- Current areas of interest relevant to the Audit Committee

f. invited questions and comments

Councillor Clarkson, referred to the ICT Programme and Project Management Audit and commented that he was disappointed to see that a Project Initiation Document (PID) had not been completed, as this was fundamental to the project. He questioned why it had been awarded Substantial Assurance without a PID included within the project,

Amanda Stanislawski, Audit Manager, responded that the audit opinion was based on the review of the whole area, everything else that was required had been included in the project.

Councillor Clarkson, further referred to the wording in the report which stated that “a PID should be completed, as a minimum for all projects’ and commented that PID’s were fundamental and must be included in all projects.

Amanda Stanislawski, Audit Manager, agreed that the wording needed to be changed to “a PID must be completed, as a minimum for all projects”.

RESOLVED that the report be accepted and the monitoring arrangements be continued

48. Internal Audit Recommendations Follow Up

Amanda Stanislawski, Audit Manager:

- a. presented an update to Audit Committee on outstanding audit recommendations including recommendations over 12 months old.
- b. referred to Appendix A attached to her report which provided details of relevant audits, outstanding recommendations, agreed actions and the current position/explanation from the service manager
- c. explained that within the report there were 4 actions which were overdue and which had requested extensions. As per the revised protocol all extensions had to be approved by the relevant Director and at the time of writing the report these had not been received. These included ICT Anti-Malware, Housing Allocations and Safeguarding
- d. invited members’ questions and comments.

Question: Asked if Officers required the Committees support in progressing the overdue recommendations.

Response: It was felt that it was not required at the moment as the ICT Anti-Malware overdue recommendation had been addressed via a final extension to the end of March. If support was required it would be brought to the attention of the Audit Committee.

Comment: Expressed concern that due to all of the staffing and control issues, there could be potential for something to go wrong across the organisation. This was not just an issue at the City Council but across all of the public sector.

Question: Asked if this issue would be eased if recruitment to the team was successful.

Response: It would address the issue within the Audit Team, when fully staffed there would be capacity to chase outstanding recommendations and find out why they had not been completed.

Comment: Referred to the ICT Anti-Malware recommendation and commented that the deadline was 2 years ago and that the 'short document' required was not a large piece of work. It was suggested that the responsible Officer be invited to attend Audit Committee if the recommendation had not been completed 7 days before the next Audit Committee which would be held on 31st January 2023.

Comment: Referred to paragraph 3.1 of the Recommendation/Agreed Action Follow Up protocol and commented that the paragraph was ambiguous in the way it was written and could be interpreted that extensions should be approved. It was suggested that the wording be amended to read "Directors will consider and approve extensions where appropriate"

Question: Referred to the "Review and update the incident management policy and procedure" in relation to the ICT Anti-Malware Audit and asked if the resource had been found to progress this.

Response: The East Midlands Warning, Advice and Reporting Group (WARP) were responsible for this and there was a lack of resources within the group. The group was not controlled by the City Council.

Question: Referred to the Office 365 Audit and asked if there was a date for completion.

Response: The date for completion was June 2024, due to the amount of time it would take for the migration of the data.

Question: Referred to the Creditors Audit in relation to the action "Review and approve authorising officers on Aggresso" and commented that the action was overdue and asked if this had now been completed.

Response: An answer would be circulated following the meeting.

Question: Referred to the Housing Allocations Audit in relation to the action "Annual Review of Allocations" and asked what was the testing phase and how had it delayed the implementation of the live system.

Response: An answer would be circulated following the meeting.

RESOLVED

1. that updates on Audit Recommendations older than 12 months be noted.
2. that the requested extensions be approved
3. that the responsible Officer for the ICT Anti-Malware Audit be invited to attend Audit Committee if the recommendation had not been completed 7 days before the next Audit Committee due to be held on 31st January 2023.

49. **Six Monthly Fraud and Error Report**

Amanda Stanislawski, Audit Manager:

- a. presented a report to update committee on the performance against the 2022/23 Counter Fraud Work Plan and the outcomes of pro-active fraud work and investigations
- b. summarised the number of fraud cases during 2022/23 compared to the previous year as detailed at appendix A of the report
- c. gave an overview of the progress that had been made against completing the actions within the Counter Fraud Action Plan as detailed at paragraph 2.3 of the report
- d. further updated members on the following areas of work that had been undertaken as detailed within the report:
 - Housing Benefit/ Council Tax Support
 - Council Tax – Single Person Discount/ Empty Properties
 - Energy Rebate Scheme
 - NNDR
 - Housing Tenancy
 - Payroll and Human Resources
 - Other Fraud/Fraud Attempts
- e. invited members questions and comments

Question: Referred to page 55 of the report in relation to the cyber-attack and asked if the member of staff had completed the training.

Response: A response would be circulated following the meeting.

Comment: It was important that regular refreshers of the training was provided.

Question: Referred to the Counter Fraud E-Learning and commented that this was asked about in July 2022. As soon as this was available the committee would be happy to complete it.

Response: This continues to be chased up with Lincolnshire Council.

Question: Referred to Housing Tenancies fraud and asked if there was a pattern to the properties that had been abandoned by tenants.

Response: A response would be circulated following the meeting.

Question: Asked if the Whistleblowing policy was published and accessible.

Response: There was a dedicated whistleblowing phone line and the policy was also published on the Councils website.

RESOLVED that the contents of the report be noted.

50. **Audit Committee Work Programme**

Amanda Stanislawski, Audit Manager

- a. presented a report to inform members of the Audit Committee on the work programme for 2022/23 as detailed at Appendix A of the report

- b. referred to paragraph 3 of the report which highlighted the changes to the work programme
- c. advised that the Audit Committee Terms of Reference was attached at Appendix A of the report for information
- d. invited members' questions and comments:

RESOLVED that the contents of the Audit Committee work programme 2022/23 be noted.

This page is intentionally blank.

Audit Committee – Member request monitoring table

Date of committee – 13 December 2022

Action No.	Name of committee report	Information requested / question asked	Member name	Officer responsible for providing response	Date response provided	Response
1	Six Monthly Fraud and Error Report	Referred to page 55 of the report in relation to the cyber attack and asked if the member of staff had completed the training.	Jane Nellist – Independent Member	Amanda Stanislawski, Audit Manager		A verbal update will be provided at the meeting on 31 January 2023.
2	Six Monthly Fraud and Error Report	Referred to Housing Tenancies fraud and asked if there was a pattern to the properties that had been abandoned by tenants	Councillor Longbottom	Amanda Stanislawski, Audit Manager	23 January 2023	These are normally one bed flats occupied by single males.
3	Internal Audit Recommendations Follow Up	Referred to the Creditors Audit in relation to the action “Review and approve authorising officers on aggro” and commented that the action was overdue and asked if this had now been completed	Councillor Longbottom	Amanda Stanislawski, Audit Manager	23 January 2023	Officer has reported that this has been completed. We will check this as part of the Financial Audits due to be undertaken this year.
4	Internal Audit Recommendations Follow Up	Referred to the Housing Allocations Audit in relation to the action “Annual Review of Allocations” and asked what was the testing phase and how had it delayed the implementation of the live system	Councillor Watt	Amanda Stanislawski, Audit Manager	23 January 2023	User acceptance testing is always done with any new system upgrade. It involves testing the changes that have been made to make sure that what we requested in the specification has been implemented, it works and is fit for purpose. In this case we found a number of issues which has meant

						that it cannot yet be used. An update meeting was held with the supplier on 11/01, whilst they believed that they had resolved some issues, on running through the process they discovered errors. Another meeting was held on 17/01 where they again believed that some issues had been resolved but this led to finding others. A further update is awaited from the supplier.
--	--	--	--	--	--	--

SUBJECT: 2022 HOMES ENGLAND COMPLIANCE AUDIT RESULTS

DIRECTORATE: HOUSING AND INVESTMENT

REPORT AUTHOR: ANDREA RIPLEY – HOUSING STRATEGY OFFICER

1. Purpose of Report

- 1.1 This report requests the Audit Committee to note the result of the Homes England Compliance Audit which took place during Q2 of 2022/23.

2. Background

- 2.1 The Council is currently under contract with Homes England (HE) to deliver new homes at Rookery Lane via grant funding.
- 2.2 The annual Compliance Audit programme provides assurance that the Council has met all of HE's requirements and funding conditions; and has properly exercised its responsibilities as set out in HE's Capital Funding Guide (CFG).
- 2.3 On 13th June 2022, HE advised the Council that 3 x compliance audit schemes had been opened for assessment in line with the individual grant funding terms/contracts and CFG. The schemes audited were:
- Affordable Homes New Build Programme – in year audit - Rookery Lane
 - Next Steps Accommodation Programme (NSAP) x one property; and
 - Rough Sleeping Accommodation Programme (RSAP) x one property.
- 2.4 As set out in the standardised terms by HE, the Council was required to appoint an independent auditor to undertake the compliance audit. This work could not take place by our appointed external auditor Mazars due to new FRC guidelines and potential conflict of interest. Therefore, on the 4th August 2022, Beever & Struthers Chartered Accountants and Business Advisors were appointed to complete the external audit following direct approach procurement processes and authorisation.
- 2.5 All requested paperwork was submitted via the Beever & Struthers online portal by the Housing Strategy and Investment Team within the required timescale for assessment. This was then submitted to HE to moderate the audit to ensure consistency.

3. Audit Results

- 3.1 On the 23 November 2022, Homes England issued the Audit report to confirm a successful Green rating for all 3 schemes. The report confirmed that each scheme met all requirements with zero breaches with no areas for improvement. Compliance Audit Report included for reference as per appendix 1.

3.2 HE Audit Compliance guidance states that the Audit Report and any recommendations are to be acknowledged by cabinet members / committee. After the committee has met, the following details have to be updated on HE compliance Audit System:

- Date that the committee met;
- To certify that the committee has given their acknowledgement to the report and any recommendations; and
- To certify that the committee has given their agreement to any action plan to address any breaches (if applicable).

4. Strategic Priorities

4.1 Let's deliver quality housing

Currently, the Council is under contract with HE to receive capital grant funding for Rookery Lane. Without this funding the Council would not be able to deliver the scheme. Future development schemes will also be considered for applications for funding to HE, so a green rating is important and evidences CoLC good standing and understanding for delivering quality housing in line with grant funding and CFG terms.

5. Organisational Impacts

5.1 Finance

As stated above, the annual Compliance Audit programme provides assurance that the Council has met all of the HE's requirements and funding conditions and has properly exercised its responsibilities as set out in HE's CFG.

5.2 Legal Implications including Procurement Rules

The Council's grant agreement with HE requires grant funded schemes to be subject to annual Compliance Audit.

5.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Equality and Diversity has been considered as part of developing this report and there are no implications.

6. Risk Implications

No risks applicable as the audit received a green rating with zero breaches and zero recommendations for improvement.

7. Recommendation

- 7.1 For Audit Committee to acknowledge and note the successful Green rating for Audit compliance as per 3.2 of this report.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? 1

List of Background Papers: None

Lead Officer:

Andrea Ripley
Telephone (01522) 873523
Email address: andrea.ripley@lincoln.gov.uk

This page is intentionally blank.

Compliance Audit Report – 2022/23

32UD – City of Lincoln Council

Final Grade	Green - Meets requirements
Independent Auditor Organisation	Beever and Struthers Chartered Accountants and Business Advisors
Independent Auditor Name	George Shillam

Report Purpose and Objectives

The purpose of the Compliance Audit report is to confirm that grant recipients have met Homes England's funding conditions and contractual requirements and have properly exercised their responsibilities as set out in the Capital Funding Guide.

We use the audit findings (which are confidential between Homes England and the grant recipient) to inform our future investment decisions and to reassure the Homes England Chief Accounting Officer that public funds have been properly used.

Where findings have been determined as breaches they are then used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided at the end of this report. Where applicable the Provider is to use the recommendations to prevent similar breaches from reoccurring in the future and to aid good governance for complying with Homes England's policies, procedures and funding conditions.

Information about the audit process and guidance is available at:
<https://www.gov.uk/guidance/compliance-audit>

Compliance Audit Grade and Judgement Summary

Final Grade	Green - Meets requirements
Judgement Summary	On review of the evidence provided, the outcome of the audit has shown the provider has complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified.

Scheme/Completions details

Scheme ID/ Completion ID	Address/Site ID	Scheme type
1051773		Next Steps Accommodation - Capital
1043516	Rookery Lane, LN6 7PP	Rent
1021142		Next Steps Accommodation - Capital

Audit Results

Number of Schemes/Completions Audited	3
Number of Breaches Assigned	0
Number of High Severity Breaches	0
Number of Medium Severity Breaches	0
Number of Low Severity Breaches	0

Provider's Acknowledgement of Report

The contents of this report including all recommendations must be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement must be recorded in the IMS Compliance Audit System by your Compliance Audit Lead no later **than three calendar months** of the report email notification being sent.

Report acknowledged by:

Date:

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the

accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.

Compliance Audit Grade Definitions

Green Grade	No high or medium severity breaches identified, although there may be low breaches identified. The Homes England audit report shows that the provider has a satisfactory overall performance but may identify areas where minor improvements are required.
Amber Grade	One or more medium severity breaches identified. The Homes England audit report will shows that the provider has failed to meet some requirements but has not misapplied public money. The provider will be expected to correct identified problem(s) in future schemes and current developments.
Red Grade	One or more high level severity breaches identified, the Homes England audit report shows that the provider has failed to meet some requirements and there has been a risk of misapplication of public funds.

This page is intentionally blank.

SUBJECT: EXTERNAL AUDIT PROGRESS REPORT

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To present the External Audit Progress Report to Audit Committee.

2. Executive Summary

- 2.1 This report provides Audit Committee with an update on progress in delivering responsibilities of the External Auditors.

3. Background

- 3.1 The External Auditor provides periodic update reports to the Audit Committee. Mazars are currently appointed as the Council's External Auditor.

4. External Audit Progress Report

- 4.1 The External Audit progress report attached (Appendix A) covers the following areas:
- audit planning update and progress report: and
 - a summary of recent relevant reports and publications for information.
- 4.2 External Audit will be in attendance at the meeting to present the progress report.

5. Strategic Priorities

- 5.1 There are no direct implications for the Council's strategic priorities. The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

- 6.1 Finance (including whole life costs where applicable)

The Audit fee for 2021/22 is £36,332, set in accordance with the scale fees set by the PSAA. The fee includes work on the VFM conclusion and the audit of the financial statements. In addition, additional fees of £25,666 have been charged in relation to the Council's status as an EU Public Interest Entity, additional work required on property valuations and the net pension liability valuation, additional testing as a result of new auditing standards, additional working arising from changes in the Code of Audit Practice for VFM reporting and additional testing as a result of Covid19 grant income. These additional fees have been determined in

accordance with 17(2) of the Local Audit (Appointing Persons) Regulations and will be considered by the PSAA. The PSAA's work includes looking in detail at the fee variation categories submitted to ensure these reflect the areas of work covered. This brings the total audit fee to £61,992 for 2021/22.

The Audit fee for 2022/23 is £48,403, set in accordance with the scale fees set by the PSAA. The fee includes work on the VFM conclusion and the audit of the financial statements, in addition the work undertake on property valuations and the net pension liability valuation is now included in the scale fee rather than being issued as a fee variation. Variations are still likely to be incurred for additional testing as a result of new auditing standards and additional working arising from changes in the Code of Audit Practice for VFM reporting, these fee variations will now be confirmed until later in 2023. The overall audit fee is likely to be in region of the 2021/22 fee.

6.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements and that proper practices have been observed in compiling them.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

There are no specific equality, diversity and human rights issues arising as result of this report.

7. Risk Implications

- 7.1 There are no specific risk implications arising as a direct result of this report. The annual Audit Strategy Memorandum sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements.

8. Recommendation

- 8.1 Audit Committee is asked to note the content of the latest External Audit Progress Report.

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

One

List of Background Papers:

None

Lead Officer:

Jaclyn Gibson, Chief Finance Officer
Telephone (01522) 873258

This page is intentionally blank.

Audit Progress Report

City of Lincoln Council

23

Audit Committee January 2023



1. Audit Progress
2. National publications

01

Section 01: **Audit Progress**

1. Audit progress

Purpose of this report

This report provides the 31 January 2023 Audit Committee meeting with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2020/21 Audit

The National Audit Office has issued its auditor instructions for the 2020/21 Whole of Government Accounts process and we have now submitted the required auditor's return. NAO has not yet though communicated the arrangements for the sample of authorities where they require additional audit procedures to be carried out. The Audit Certificate will be issued, and the audit formally closed, when NAO has confirmed their requirements and any further requested work has been completed.

2021/22 Audit

Financial Statements audit

We presented our Audit Completion Report to Audit Committee in November and the updated Statement of Accounts have been approved by the Council. The financial statements audit work is in the final stages of external quality review and we are hopeful of issuing the audit opinion by the end of January. There are no further matters to raise with Committee at this stage. We will update the Committee at the January 2023 meeting on the current position and report the results of our work in our Follow-up Letter which we will issue at the conclusion of the audit.

Value for Money arrangements

We reported our interim findings in our November 2022 report to the Committee and have continued to keep our risk assessment up to date. There have been no significant changes to our assessment of the Council's arrangements and there are no significant weaknesses or risks of significant weaknesses in the Council's arrangements that we need to bring to the Committee's attention. The Council's financial position, including the current year financial difficulties and challenging medium term outlook across the sector, continues to be an area of focus. We will update our assessment on this and the other criteria covered by the value for money commentary and set out our findings and conclusions in the Auditor's Annual Report which we expect to present to the Committee's next meeting.

Assurance work

We have been engaged by the Council to carry out the assurance reporting on the 2021/22 Housing Benefit Subsidy Assurance. This work is in progress and we are working to report our findings to DWP by the end of January 2023 deadline. There are no matters arising from the work carried out to date that we need to bring the Committee's attention. DLUHC has not yet issued its instructions for the assurance required on the Pooling of Housing Capital Receipts Return 2021/22 and the engagement for this work will be finalised when the Department's requirements have been confirmed.

1. Audit progress (continued)

2022/23 Audit

We are updating our risk assessments and completing our planning for the 2022/23 audit. Our planning and interim audits are due to be carried out in February and March 2023.

Financial Statements Audit

At this stage we do not anticipate any significant changes in the scope of the financial statements audit opinion work, the approach, risk profile or timeline. There are two points though that we need to highlight at this stage:

- Auditing Standards update - we have confirmed the requirements of the revised ISA 315 which applies to the Council's 2022/23 audit and underpins the work we are required to carry out to identify and assess the risks of material misstatement. This enhanced standard will require additional audit work and it is likely that we will need additional information and responses from the Council's management beyond those asked at previous audits. We have included a short summary of the key points from the revised ISA315 within Section 2 of this report. We will continue to liaise with management on the information required for our planning and interim audits and take the matters arising into account as part of our risk assessment.
- Public Interest Entity (PIE) status – the Council's listed debt stock was redeemed (with payments made to stockholders) towards the end of 2021/22 and the delisting process was completed with the London Stock Exchange in early April 2022. We are liaising with the Mazars audit quality monitoring team to confirm the Council can be de-classified as a PIE for 2022/23. Although we will continue to ensure the audit work meets the rigorous requirements of auditing standards and of our regulators the audit would no longer be subject to the enhanced and extended quality and ethics monitoring and review processes which applied to previous audits.

We expect to present our formal 2023/23 Audit Strategy Memorandum to the Committee's next meeting and will continue to update members on progress.

Value for Money arrangements

NAO has confirmed that there are no changes to their requirements for the auditor's value for money commentary on the Council's arrangements for 2022/23. Our assessment will continue to cover the Council's arrangements for:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks
- 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

We will build on the previous year's work and report our updated risk assessment, including our views on the latest Budget and Medium Term Financial Strategy, to the Committee in our formal 2022/23 Audit Strategy Memorandum.

2. Revised ISA 315

Revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

(Effective for audits of financial statements for periods beginning on or after December 15, 2021)

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor’s risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The main changes relevant to your audit are outlined below:

- Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework to identify the newly introduced inherent risk factors to drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these inherent risk factors, the auditor assesses inherent risk on the “spectrum of inherent risk”, at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions:

Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?

2. Revised ISA 315

Consideration of account balances and assessing inherent risks

Under the revised ISA 315 we will make an assessment of the inherent risks associated with the Council's transactions, balances and disclosures. We then determine whether each transaction, balance and disclosure is a 'significant account' (i.e. a significant class of transactions, balances and disclosures) and identify the assertions that are relevant. We then consider the controls the Council has in place and conclude whether or not we consider the audit risk associated to each item is significant, i.e. after taking into account the controls in place is there a significant risk of material misstatement in relation to the relevant assertion. In addition, the revised ISA requires auditors to document more closely the key business process associated with each significant account with a focus on the processes for how transactions are initiated, recorded, processed, and incorporated into the general ledger.

Greater emphasis on IT

In response to constantly evolving business environments, the standard has placed an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

Increased focus on controls

In addition to the above, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

Impact on the audit of the Council

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in. This will build on the existing strong knowledge of the Council we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Council's IT environment although we will need to update our assessment following the financial system changes in 2022/23. We will keep this under review as part of our planning and interim audits. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

02

Section 02: **National publications**

National publications

	Publication/update	Key points
Financial Reporting Council (FRC)		
1	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
Chartered Institute of Public Finance and Accountability (CIPFA)		
2	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
3	Insourcing in the Public Sector: A Practical Guide (2022 edition)	Guidance for practitioners
4	Update to the Code and Specifications for future Codes for Infrastructure Assets	An update to the 2021/22 Code, which also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code.
	CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution	The bulletin covers the issues to be considered regarding the temporary solution set out in the Code update and the amended Regulations for the accounting and reporting issues relating to infrastructure assets
5	Integrating Care	CIPFA has published a report entitled, ‘Integrating care: policy, principles and practice for places’.
Public Audit Forum		
6	Consultation responses to the revised Practice Note 10	<p>The Public Audit Forum (PAF) oversees the development and publication of the Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom which was revised in 2022.</p> <p>PAF has now published the responses to the consultation and final draft amendments. These amendments were approved by the Financial Reporting Council in November 2022.</p>
National Audit Office (NAO)		
7	Guide to Corporate Finance in the Public Sector	The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities

National publications

	Publication/update	Key points
8	Government Shared Services	The NAO published its report Government Shared Services which examines whether the government’s latest Shared Services Strategy is on track to deliver.
9	Departmental Overview 2021-22	The NAO has produced an overview of the Department for Levelling up, Housing & Communities’ (DLUHC’s) spending and performance for 2021-22
Public Sector Audit Appointments Ltd		
10	Publication of the 2022/23 fee scale	External audit fees for 2022/23
11	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies
12	PSAA announces the number of audit opinions completed for the 2021/22 audits	PSAA has published this year’s position on delayed audit opinions.
Department for Levelling Up, Housing and Communities		
13	Technical consultation on consequential changes to the homelessness legislation	This consultation aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.
14	Local government finance policy statement 2023-24 to 2024-25	The policy statement sets out the government’s intentions for the local government finance settlement for the next 2 years.
15	The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022	These amended Regulations provide local authorities with the temporary statutory override option to allow them to progress and resolve any issues relating to their accounting for Infrastructure Assets.

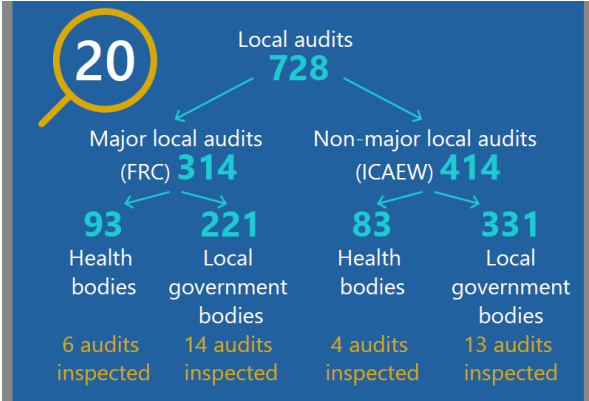
NATIONAL PUBLICATIONS

Financial Reporting Council

1. FRC Major Local Audit Inspection Report - October 2022

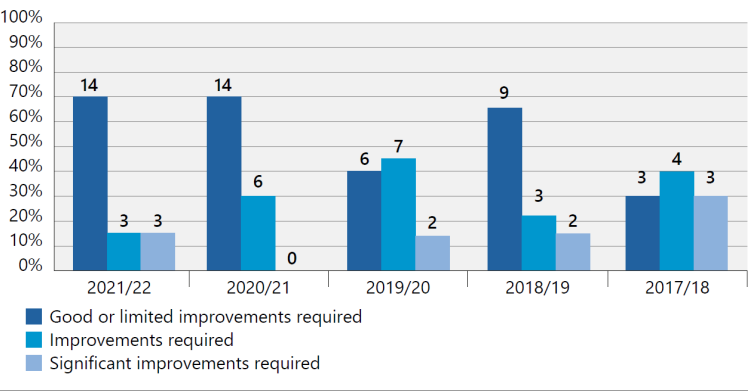
The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
Total	314		20



Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

All financial statement reviews – for the firms inspected



For Mazars, the FRC found that all 3 2021.22 files reviewed met the expected standards.

This was the second successive year of 100% compliance for Mazars.

Whilst the sample size is small and focused on the higher risk audits, these strong outcomes reflect the investment we have made in people, technical expertise, specialists (such as building an in-house valuation team) and strengthening our audit methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

NATIONAL PUBLICATIONS

CIPFA

2. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

3. Insourcing in the Public Sector: A Practical Guide (2022 edition), December 2022

The guide is an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in. In recent times, several outsourced arrangements have failed due to poor quality and unreliability of providers. It is important to note that while insourcing does not require a public body to run a full procurement process, it still needs to follow a process and undertake key steps (for example, TUPE and asset transfer) and is equally reliant on the public body having expert and skilled personnel to manage this.

This practical guide will support public sector practitioners in understanding key areas to focus on when considering insourcing as part of future delivery models.

<https://www.cipfa.org/policy-and-guidance/publications/i/insourcing-in-the-public-sector-a-practical-guide-2022-edition>

NATIONAL PUBLICATIONS

CIPFA

4. Update to the Code and Specifications for future Codes for Infrastructure Assets (November 2022), and CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution (January 2023)

This November 2022 publication is an Update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code, though these specifications will also be included in the 2023/24 and 2024/25 Codes for completeness. This Update to the Code and future specifications for the Code must therefore be considered against these editions of the Code, or where necessary earlier editions.

<https://www.cipfa.org/-/media/files/policy-and-guidance/cipfa-lasaac/ifrs-based-code-update-infrastructure-assets.pdf>

The January 2023 CIPFA Bulletin 12 provides further practical guidance and covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets. The Bulletin takes into account the matters set out in the amended regulations published in December 2022 (see item 15 later in this report). The objective of the bulletin is to provide guidance on the temporary solution for accounting for infrastructure assets, focussing on the reporting of the derecognition provisions where there is replacement expenditure and particularly for highways infrastructure assets

The temporary solution includes the Update to the Code and Specifications for Future Codes for Infrastructure Assets (Update to the Code) from 1 April 2021 to 31 March 2025 which features a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets and the statutory prescriptions from England and Wales and Scotland

The Bulletin also includes guidance on accounting for the pattern of consumption of economic benefits and service potential i.e. depreciation.

The Bulletin includes guidance on materiality, an overview of different elements of the temporary solution, the accounting requirements for derecognition including the statutory prescription, the impact on accounting policies and the reporting requirements for disclosure of gross cost and accumulated depreciation.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-12-accounting-for-infrastructure-assets-temporary-solution>

5. CIPFA publishes integrating care report – December 2022

CIPFA has published a report entitled, 'Integrating care: policy, principles and practice for places'. The report provides an overview of the changes since the Health and Care Act 2022 was introduced and discusses what integration is seeking to achieve. It considers the wider health and care landscape in the current climate and addresses the remaining challenges at place level.

The recommendations and case studies it contains are intended to influence the development of further policy and guidance by central government, and to provide support for practitioners at local level. The purpose of the report is to help health and local government partners to find effective solutions to the challenges of health and care integration.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/press-release-cipfa-publishes-integrating-care-report>

NATIONAL PUBLICATIONS

Public Audit Forum

6. Consultation on Practice Note 10 (Revised 2022): Summary of Responses and Proposed Amendments – December 2022

The consultation on the exposure draft of the 2022 revision of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10) closed on 16 September 2022 and this document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

Part 1 of PN 10 provides guidance on applying auditing, quality management and ethical standards in the public sector. It is important to consider potential changes to PN 10 in the context of PN 10's status as a Statement of Recommended Practice (SORP): a set of sector-driven recommendations on (in this case) auditing practices for the public sector which guide auditors on how to apply the underlying standards, including International Standards on Auditing (UK) (ISAs (UK)), in the specialised context of the public sector. The PAF has no role in determining the principles or requirements which are included in the ISAs (UK). The PAF also has no direct role in setting the financial reporting frameworks for public sector entities (although member bodies of the PAF maintain dialogue with the framework setters).

As set out in the summary of responses included in the report, respondents commented on a range of issues faced by auditors of public sector entities. By far the most-cited issue was the current situation in local audit in England and current delays in completing audits of local authorities. A number of respondents suggested various ways in which the consultation draft of PN 10 might be amended so as to ameliorate some of these issues by reducing the audit effort in particular areas. There were suggestions that the proposed changes to the guidance on applying ISA (UK) 320 Materiality in planning and performing an audit may have a significant impact on local auditors' approach to materiality judgements.

<https://www.public-audit-forum.org.uk/wp-content/uploads/2022/12/Practice-Note-10-Consultation-Response-2022.pdf>

NATIONAL PUBLICATIONS

National Audit Office

7. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts
- Organisations and functions
- Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

<https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/>

8. Government shared services – November 2022

The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One)
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three)

The report concludes the government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence.

The reports highlights concerns that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. The NAO, therefore, cannot conclude that this programme is on track to demonstrate value for money.

<https://www.nao.org.uk/reports/government-shared-services/#downloads>

NATIONAL PUBLICATIONS

National Audit Office

9. Departmental Overview 2021-22: Department for Levelling Up, Housing & Communities - December 2022

The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021-22. DLUHC spends nearly £38 billion each year to support economic growth and housing across the country, in collaboration with local authorities. It has overall responsibility in central government for local authorities' funding. Along with other bodies, DLUHC oversees the core accountability system for local authorities.

The guide summarises the key information and insights that can be gained from the NAO's examinations of DLUHC and related bodies in the sector in England, and DLUHC's Annual Report and Accounts.

<https://www.nao.org.uk/overviews/departmental-overview-2021-22-department-for-levelling-up-housing-communities/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

10. News release: Publication of the 2022/23 fee scale – November 2022

PSAA has published the 2022/23 audit fee scale following consultation. Information on the fee scale and consultation is available. Most audit work under this fee scale will be undertaken from April 2023 onwards.

The fee scale applies for the audit work to be undertaken by appointed auditors in respect of the 2022/23 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements for the period 2018/19 to 2022/23.

Auditors will undertake their work under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Under the Local Audit (Appointing Person) Regulations 2015, the 2022/23 fee scale must be published by 30 November 2022 and cannot be amended after that date. Any subsequent changes in national requirements or local circumstances relating to the 2022/23 audits will therefore be the subject of fee variations.

The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a procurement during 2022. PSAA will consult on the fee scale for the 2023/24 audit in early autumn 2023.

<https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

11. Directory of Auditor Appointments from 2023/24 – December 2022

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The Board agreed the appointments at its meeting on 16 December 2022.

<https://www.psaa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

12. PSAA announces the number of audit opinions completed for the 2021/22 audits – December 2022

This year’s position on delayed audit opinions underscores the scale of the huge challenge that local audit is facing. At the publishing date of 30 November 2022, only 12% of local government bodies’ 2021/22 audit opinions have been given. Although this is slightly higher than last year’s 9%, this year’s publishing date is two months later than the 30 September target for delivery of 2020/21 opinions.

The table below highlights a comparison with previous years.

40	Year of Account	Publishing Date	Opinions given at the publishing date
	2021/22	30 November 2022	12%
	2020/21	30 September 2021	9%
	2019/20	30 November 2020	45%
	2018/19	31 July 2019	57%

What makes the latest position increasingly alarming is that more than 220 opinions from prior years remain outstanding. As opinions have been given at fewer than 60 bodies for 2021/22, this means that a total of more than 630 opinions are currently late. This year the position has been made more difficult by uncertainties concerning the valuation of infrastructure assets, adding to significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.

<https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

13. Technical Consultation on Consequential changes to the homelessness legislation – December 2022

This consultation seeks views on the consequential amendments to homelessness legislation as a result of the Renters Reform Bill, namely, the removal of section 21 evictions, assured shorthold tenancies and fixed-term tenancies and aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.

The scope of the consultation is limited to responses on the legislative technical amendments. The majority of the amendments to the legislation are minor and, while the consultation is open to everyone, most responses are expected to be from local authorities and charities in the homelessness space.

The consultation will run for 7 weeks.

<https://www.gov.uk/government/consultations/technical-consultation-on-consequential-changes-to-the-homelessness-legislation/technical-consultation-on-consequential-changes-to-the-homelessness-legislation>

14. Local government finance policy statement 2023-24 to 2024-25 – December 2022

The local government finance policy statement sets out the government's intentions for the local government finance settlement for the next 2 years, providing councils with greater certainty on key aspects of their funding to inform their budget setting process and help them to plan for the future.

For the core settlement the Business Rates Multiplier for 2023-24 will be frozen at 49.9p and Revenue Support Grant (RSG) will increase in line with CPI.

For council tax the bespoke council tax referendum principle of up to 3% or £5, whichever is higher, for shire districts remains.

In respect of the remaining settlement grants, the Rural Services Delivery Grant will remain unchanged, in recognition of the inflationary pressures across the sector the Lower Tier Services Grant will be repurposed along with a proportion of the expired New Homes Bonus legacy payments to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and council tax levels. There will also be new rounds of New Homes Bonus (NHB) payments in 2023-24.

These proposals are subject to consultation which will last for 4 weeks from 19 December 2022 to 16 January 2023.

<https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25/local-government-finance-policy-statement-2023-24-to-2024-25>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

15. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 – December 2022

These amended regulations came into force 25 December 2022. New regulation 30M (3) provides that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). Regulation 30M applies to statements of accounts for financial years beginning on or before 1 April 2024, and to those statements of accounts that have not already been certified by a local auditor. The accompanying explanatory memorandum sets out the government’s expectation in interpreting the statutory provision which is that where local authorities determine the carrying amount to be derecognised at nil value, no further evidence is required to support this. The government has indicated that ‘determination’ should be interpreted as a choice by an authority. As set out in the Local Government Act 2003 S.21 (3), where there is conflict between accounting practices specified in regulations and those in Code, the practices in regulations take precedent. The government has indicated that the intent of the Regulations and the Update to the Code is to mitigate the risks of further audit delays or the qualification of accounts due to issues relating to infrastructure assets, as described.

<https://www.legislation.gov.uk/ukxi/2022/1232/introduction/made>

Contact

Mazars

Partner: Mark Surridge

Email: mark.surridge@mazars.co.uk

Manager: Mike Norman

Email: michael.norman@mazars.co.uk

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.

www.mazars.com

Follow us:

LinkedIn:

www.linkedin.com/company/Mazars

Twitter:

www.twitter.com/MazarsGroup

Facebook:

www.facebook.com/MazarsGroup

Instagram:

www.instagram.com/MazarsGroup

WeChat:

ID: Mazars

This page is intentionally blank.

AUDIT COMMITTEE

31 JANUARY 2023

SUBJECT: APPOINTMENT OF EXTERNAL AUDITOR

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To present to the Audit Committee the outcome of the process to appoint an external auditor for the Council with effect from 1 April 2023.

2. Executive Summary

- 2.1 The current arrangements in respect of the appointment of the Council's external auditors, currently Mazars LLP, are due to come to an end following the audit of the 2022/23 accounts.
- 2.2 The Council, in January 2022, agreed to opt into the appointing persons arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of its external auditors for period covering the accounts from 2023/24 – 2027/28.
- 2.3 Following a tender process to procure the audit services the PSAA have appointed KPMG as the Council's external auditor for five years from 2023/24, with the appointment commencing on 1 April 2023. This represents a change from the existing appointed auditor; Mazars LLP.

3. Background

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established arrangements for the appointment of external auditors and the setting of audit fees for principal local government bodies.
- 3.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council, in 2017, agreed to opt into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23. Following a tender process to procure the audit services the PSAA appointed Mazars LLP as the Council's external auditor.
- 3.3 In January 2022, Full Council, after consideration by the Audit Committee resolved to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors for the next five-year appointing period.

4. Local auditor appointment process

- 4.1 A total of 470 bodies (99%) of eligible bodies (including local government, police

and fire bodies) opted into the sector-led approach offered by PSAA.

- 4.2 During the period April to September 2022 the PSAA managed a tender process to procure audit services. This procurement took place against the challenging backdrop of a troubled audit profession, a turbulent market and a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the procurement.
- 4.3 The outcome of the procurement resulted in contracts being offered to six suppliers following a competitive process that was protracted, reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide. Services of three existing suppliers were retained those being, Grant Thornton, Mazars and Ernst & Young, with one former supplier KPMG re-appointed and two new suppliers, Bishop Fleming and Azets Audit Services also awarded contracts. From 2023/24 the respective shares of the audits of opted-in bodies will be as follows:

	Share of PSAA's Work
Grant Thornton	36.0%
Mazars	22.5%
Ernst & Young	20.0%
KPMG	14.0%
Bishop Fleming	3.75%
Azets Audit Services	3.25%

This equates to 99.5% of the audit work detailed in the tender, however due to recent and scheduled local government reorganisations reducing in the auditor capacity required, the 99.5% is sufficient.

- 4.4 On 17 October, the Council received communication from PSAA of the intention to appoint KPMG as its auditor for five years from 2023/24, with the appointment commencing on 1 April 2023. This represents a change from the existing appointed auditor; Mazars LLP.
- 4.5 The Council had the opportunity to make representations to PSAA on the proposed appointment, with the following provided as acceptable reasons:
- There is an independence issue in relation to the firm proposed as the auditor, which had not been previously notified to PSAA;
 - There are formal and joint working arrangements relevant to the auditor's responsibilities, which had not been previously notified to PSAA; or
 - There is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.
- 4.6 There were considered to be no reasons for the Council to make such representations on the appointment and as such the Chief Finance Officer confirmed to PSAA that the Council accepted the appointment of KPMG.
- 4.7 PSAA have subsequently confirmed the appointment of KPMG as the Council's

external auditor to audit its accounts for five years, from 2023/24 to 2027/28.

- 4.8 The appointment of KPMG as the Council's external auditor excludes the provision of an Independent Reporting Accountant, required for the certification work on the Housing Benefit subsidy which is undertaken on behalf of the Department for Work and Pensions (DWP). Neither does the arrangement cover the provision of an Independent Reporting Accountant, required for the certification work on the Pooling of Housing Capital Receipts Scheme, which is undertaken on behalf of the Department for Levelling Up, Homes and Communities (DLUHC). These requirements were not included in the scope of works for the PSAA and must be procured separately. The Council is required to undertake a separate procurement process for this element of assurance work.

5. Strategic Priorities

- 5.1 There are no direct implications for the Council's strategic priorities. The appointment of an external auditor is a statutory requirement of the Council and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

6.1 Finance

At this stage the audit scale fees for 2023/24 are not yet known. The PSAA have stated that they will consult formally on scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies on their website by 30 November 2023. However, the PSAA announced in October 2023 that on the basis of the procurement outcome their advice to opted in bodies was to anticipate an increase of the order of 150% on the total fees for 2022/23 - noting that the actual total fees will depend on the amount of work required.

The bid prices that we received in the procurement exercise reflect a significant increase compared to the previous procurement in for the current five-year appointment period. The audit industry has faced major challenges in the intervening period. In addition, local audit faces several distinctive difficulties which have resulted in a less competitive market.

The Council's scale fee for 2022/23 is £48,403, with additional fee variations of approx. £7,100. A 150% increase in these fees would be £83,268, taking the total fee to £138,780. Provision for these increased costs have been provided for in the draft Medium Term Financial Strategy 2023-28.

An update will be provided to the Committee later in 2023 when the final scale fees are announced.

6.2 Legal Implications including Procurement Rules

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 and this gives the Secretary of State the ability to enable a sector led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

The appointment of KPMG has been made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and was approved by the PSAA Board at its meeting on 16 December 2022.

7. Risk Implications

- 7.1 There are no specific risk implications arising from this report, the Council has adopted a sector led approach, through PSAA, to the appointment of the new external auditor. The Council will now work with both it's existing and new external auditor to ensure a successful transition in a timely and efficient manner.

8. Recommendation

- 8.1 The Audit Committee is asked note the appointment by PSAA of KPMG as the external auditor for the Council for a five-year period from 1 April 2023.

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

None

List of Background Papers:

Appointment of external auditors, Audit Committee
14 December 2021 and Council 18 January 2022

Lead Officer:

Jaclyn Gibson, Chief Finance Officer
Telephone (01522) 873258

AUDIT COMMITTEE**31 JANUARY 2023**

SUBJECT: AUDIT COMMITTEE WORK PROGRAMME 2022/23

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

- 1.1 To provide details of the Audit Committee work programme for 2022/23.

2. Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state 'the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk'. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.
- 2.2 The Audit Committee approves a work programme each year and monitors progress against it. Any changes to the work programme are reported to the Committee.

3. 2022/23 Work Programme

- 3.1 The proposed work programme for 2022/23, based on the Committee's Terms of Reference and cyclical reporting, is attached at Appendix B. The frequency of meetings has been reviewed and is considered appropriate for 2022/23.
- 3.2 There have been a number of changes made to the work programme for the January meeting:-
- The Internal Audit Progress Report has been removed due to the previous one only being reported in December and to free up resources to progress the Audit Plan work.
 - Annual Fraud Risk Register Update has been removed and will be incorporated into the Annual Fraud report going forward.

- The External Audit: Audit Strategy Memorandum has been deferred at the request of Mazars until the March Committee. Instead, an External Audit: Progress Report has been included on the agenda.
- The Code of Corporate Governance Update report has been removed from the work programme, although the Code is subject to an annual review (due February 2023) it is anticipated that there will only be minor updates to references etc, in which event it will not need to be considered the by Committee. Any future significant changes to the Code will be presented to the Committee.
- An additional report to update on the appointment of a new External Auditor following the outcome of the procurement process has been added to the agenda.
- An additional report updating on the outcome of the 2022 Homes England Compliance results has also been added to the agenda, following completion of this work.

Any further changes to this work programme will be reported to the Committee at each of its meetings.

3.3 A copy of the Audit Committee's Terms of Reference is attached at Appendix A.

4. Learning and Development

4.1 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

4.2 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2022/23 the following training is scheduled:

- 6th June 2022 – Audit Committee Effectiveness – this was cancelled and rescheduled to 30th June
- 7th July 2022 – Local Government Financial Statements
- 31st January 2023 – Treasury Management
- TBC – Risk Management
- TBC – Counter Fraud learning

5. Strategic Priorities

5.1 The Internal Audit Service and Audit Committee contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

6. Organisational Impacts

6.1 Finance – There are no direct financial implications arising as a result of this report.

6.2 Legal Implications including Procurement Rules – There are no direct legal implications arising as a result of this report.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

7. Risk Implications

7.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:

- the robustness of the risk management framework;
- the adequacy of the internal control environment and
- the integrity of the financial reporting and annual governance of the Council.

8. Recommendation

8.1 Audit Committee are asked to comment on and agree on the work programme for 2022/23.

Key Decision	No
--------------	----

Do the Exempt Information Categories Apply?	No
---	----

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
---	----

How many appendices does the report contain?	Two
--	-----

List of Background Papers:	None
----------------------------	------

Lead Officer:	Amanda Stanislawski, Internal Audit Manager Amanda.stanislawski@lincoln.gov.uk
---------------	---

This page is intentionally blank.

9.1 Audit Committee

The Council will appoint an Audit Committee.

9.2 Composition

Audit Committee

(a) The Audit Committee will comprise • seven Councillors • one independent member

(b) The seven councillors of the Audit Committee should include the Chair of Performance Scrutiny Committee.

(c) A member of the Executive may not be a member of this Committee

9.3 Statement of purpose

(a) The Audit Committee will have the following roles and functions:

(b) The audit committee is a key component of the City of Lincoln's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

(c) The purpose of the Audit Committee is to provide independent assurance to the Council members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City of Lincoln's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

(d) To decide upon and authorise allowances to the Committee's Independent Member.

Governance, risk and control

(a) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

(b) To engage with relevant committees to help support ethical values and reviewing arrangements to achieve those values as appropriate

(c) To appoint Lead Member to monitor and oversee Information Governance practices within the Council along with the Information Governance Board.

(d) To monitor the effectiveness of the Authority's risk management Arrangements (development and operation),

(e) To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks);

(f) To monitor the counter-fraud strategy, actions and resources.

(g) To monitor progress in addressing risk-related issues reported to the committee.

(h) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules;

(i) To review any issue referred to it by the Chief Executive, a Strategic Director, Monitoring Officer, Chief Financial Officer or any Council body as the Chair considers appropriate within the general Terms of Reference of the Committee

(j) To review the Authority's assurance statements, including the Annual Governance Statement prior to approval, ensuring it properly reflects the risk environment and

supporting assurances (including internal audit's annual opinion on governance, risk and control)

(k) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

(l) To review the Council's arrangements for corporate governance, including the local Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice (the good governance framework, including the ethical framework)

(m) To review the governance and assurance arrangements for significant partnerships or collaborations.

(n) To consider the Council's compliance with its own and other published standards and controls;

(o) To report and make recommendations to Executive or Council on major issues and contraventions;

(p) To have rights of access to other Committees of the Council and to strategic functions as it deems necessary.

(q) To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.

(r) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Internal audit

(a) Receive and consider the annual report and opinion of the Internal Audit Manager including conformance with Internal Audit Standards

(b) Review a summary of internal audit activity including internal audit reports on the effectiveness of internal controls, seeking assurance that action has been taken where necessary on the implementation of agreed actions;

(c) To consider summaries of specific internal audit reports as requested by the Audit committee.

(d) To Approve (but not direct) internal audit's risk-based annual audit plan including resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.

(e) Audit Committee Chair to approve significant interim changes to the risk based internal audit plan and resource requirements followed by report to Audit Committee.

(f) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

(g) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments

(h) To monitor audit performance, including QAIP results and any nonconformance with PSIAS and LGAN.

(i) To consider whether the non-conformance is significant enough that it must be included in the AGS

(j) Consider the annual review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations

(k) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years

(l) To receive reports outlining the action taken where the Audit manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions

(m) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

(n) To have the right to call any officers or Members of the Council as required to offer explanation in the management of internal controls and risks.

(o) To approve the internal audit charter.

External audit

(a) To consider the reports of external audit and inspection agencies, including the external auditor's annual letter, relevant reports, and the report to those charged with governance

(b) To consider specific reports as agreed with the external auditor.

(c) To advise and recommend on the effectiveness of relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.

(e) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

(f) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

(l) To commission work from internal and external audit, as required, and as resources allow;

Financial reporting

(a) The Audit Committee, as the Committee "Charged with Governance" should consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

(b) To review the annual statement of accounts. The Committee should consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

c) The Committee will monitor management action in response to any issues raised by external audit 151

Accountability arrangements

(a) To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

9.4 Proceedings of the Audit Committee

(1) The Audit Committee must conduct its proceedings in accordance with Rules 6-8, 12.3 to 12.7, 14 -17 and 18-28 (but not Rule 23.1 or 26 of the Council Procedure Rules set out in Part 4 of this Constitution.

9.5 Quorum

Audit Committee

The quorum for any meeting of the Audit Committee shall be three Councillors.

This page is intentionally blank.

**AUDIT COMMITTEE
AUDIT WORK PROGRAMME FOR 2022/23**

Meeting dates	Audit Items – Revised Agenda	Training (Suggested)
6th June 22		Audit Committee Effectiveness (Cancelled)
14th June 22	<ul style="list-style-type: none"> • Annual Internal Audit Report • Annual Fraud & Error Report • Internal Audit Charter • External Quality Assessment Report • External Audit – Audit Planning Update 2021/22 and Progress Report • External Audit – Audit Completion Report 2020/21 – Follow Up Letter • External Audit – Annual Auditor’s Report 2020/21 • Audit Committee Work Programme 	
30th June 2022		Audit Committee Effectiveness
7th July 2022		Local Government Financial Statements
19th July 22	<ul style="list-style-type: none"> • Internal Audit Progress Report • Internal Audit recommendations Follow Up • Annual Governance Statement (Draft) • Statement of Accounts (Draft) • Risk Management Annual Update • Audit Committee Work Programme 	
27th Sept 22	<ul style="list-style-type: none"> • Meeting cancelled and items moved to 15th November 	
15th Nov 22	<ul style="list-style-type: none"> • Statement of Accounts (including Annual Governance Statement) (Final) • External Audit – Audit Completion report (21/22) • External audit – Annual Audit letter (21/22) • Information Governance Update 	

APPENDIX B

	<ul style="list-style-type: none"> • Annual Governance Statement Monitoring • Financial Procedure Rules • Internal Audit Progress Report • Internal Audit Revised Plan • Counter Fraud Policies – Whistle Blowing • Annual Complaints Report • Assessment of going concern status • Approval of External Audit 2021/22 Non-audit services • Audit Committee Work Programme 	
13 th Dec 22	<ul style="list-style-type: none"> • Internal Audit progress report • Audit Recommendations Follow Up Report • Six Month Fraud & Error Report • Audit Committee Work Programme 	
31 st Jan 23	<ul style="list-style-type: none"> • Treasury management policy and Strategy • External Audit –Progress Report • Appointment of External Auditor • Homes England Compliance Audit Results • Audit Committee Work Programme 	<ul style="list-style-type: none"> • Treasury Management
21 st Mar 23	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit Recommendations Follow Up Report • Combined Assurance Report • Internal Audit Strategy and Plan 22/23 • Counter Fraud Policies – Money Laundering • Statement on Accounting Policies • IAS19 – Assumptions • External Audit Inquiries • External Audit: Audit Strategy Memorandum • Annual Governance Statement Monitoring • Information Governance update • Partnership Governance • CIPFA Financial Management Code • Audit Committee Work Programme 	

APPENDIX B

Date to be agreed		<ul style="list-style-type: none">• Counter Fraud (e-learning)

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.

This page is intentionally blank.