

Audit progress report City of Lincoln Council

August 2020





CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to City of Lincoln Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Changes in accounts and audit timetable

In April 2020 The Ministry of Housing, Communities and Local Government (MHLCG) confirmed that a statutory instrument (SI) amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The new effects of the amendments to the regulations are to change the dates that local bodies are required to publish draft and final accounts, and to remove the 'common' period during which local electors can inspect and object to local authority accounts.

The key changes for publication of draft and final accounts are as follows:

- The date for authorities to publish draft financial statements moves from 31 May to **31 August 2020**.
- The date for publication of final (audited) financial statements moves from 31 July to **30 November 2020**.

The requirement for a 'common' inspection period has been removed. The requirement to hold a 30-working-day inspection period remains, but for 2019-20 authorities can commence the inspection period at any time, except it must commence **no later than 1 September 2020**. This will allow authorities to produce their draft accounts and commence their inspection periods as soon as they are able.

Covid-19 Financial Reporting Issues

There are a number of key financial reporting issues arising as a direct result of Covid-19. As at the date of writing, the most significant are set out below and have been shared with management.

Valuation of Land & Buildings

- [RICS guidance](#) has been issued which indicates that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. We will need to consider the implications as part of our testing and conclusions.

Financial Assets (receivables)

- Whilst the Government has introduced a number of measures to ease financial hardship, the Council will consider the impact on expected credit losses or impairment of financial assets

Sources of estimation uncertainty, including pension fund assets and liabilities

- The Council is required to provide disclosures regarding the key sources of estimation uncertainty that management has made in preparing the financial statements, specifically those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the ensuing financial year.
- Information on pension assets and liabilities are obtained via the pension fund and we will consider the implications of any matters arising through the pension fund audit in our work.

1. AUDIT PROGRESS

Audit progress

Since the Committee last met we have:

- continued to liaise with relevant staff at the Authority in respect of our 2019/20 year end audit work including agreeing an updated year end timetable to reflect the changes to the national timetable for 2020. This will see our work commence in mid September 2020, and we plan to report our findings to the Audit Committee in November 2020, before consideration by Council; and
- continued to liaise with management and review key Executive and Committee papers to inform our ongoing risk assessment for our VFM conclusion.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

Mazars response to the COVID-19 pandemic

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us.

Ensuring resilience and maintaining the level and quality of client service

- Beyond protecting the welfare of our clients and people, Mazars' first priority is to continue to deliver on our business commitments. As part of our existing contingency planning, we have implemented systems and procedures to ensure continuity and to minimise any disruption.
- Our teams have full access to remote working technology with secure access to their applications, tools and data, wherever they are, and agile working processes are well-established across the firm.
- In a shifting environment, we will continue to adapt our approach to best navigate the uncertain situation while keeping our people and our clients front of mind.
- All partners and staff are working remotely, and our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients, deliver on our commitments, and provide continuity and support at the time it's most needed.

Mazars' external website contains further details of its response to the emerging situation, along with regular economic briefings.

<https://www.mazars.co.uk/>

Responding to changes – working with the Authority

All Mazars' staff moved to remote working from the 16th March 2020. We are committed to supporting the Authority as best we can, recognising first and foremost, the need to be flexible as the current environment changes and also potential pressures on the finance team of the Authority. We have maintained open communication throughout this period and will continue to do so.

We are able to carry out the audit remotely and will put in place arrangements to allow this; for example, regular video conference calls, and a shared site for secure transfer of data if required. We will maintain communication via e-mail, and regular telephone and video conferencing calls.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
Financial Reporting Council and other regulators		
1.	Statement in respect of current situation	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
2.	CIPFA Bulletin 05: Closure of the 2019/20 Financial Statements, 30 April 2020	This is technical guidance for those preparing financial statements.
3.	Code of practice on Local Authority Accounting in the United Kingdom 2020/20, July 2020	New Code of Practice on local government accounting effective from 1 April 2020.
National Audit Office (NAO)/House of Commons		
4.	Overview of the UK government's response to the COVID-19 pandemic, 21 May 2020	NAO's first publication considering the Government response to COVID-19.
5.	Code of Audit Practice	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit year and beyond.
6.	Public Accounts Committee follow up report to Local authority investment in commercial property, 13 July 2020	Aimed at actions that MHCLG should take, particularly in relation to use of prudential borrowing and oversight of adherence to the Prudential Framework by councils.
Public Sector Audit Appointments (PSAA)		
7.	PSAA Publishes Findings of Audit Survey, 7 May 2020	PSAA client survey. We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.
8.	News release: Q&As, 9 April 2020	PSAA seeks to answer questions raised in the 2020/21 scale fee process.
9.	2020/21 audit fee scale, 31 March 2020	Scale fees set for 2020/21 at same level as 2019/20, but PSAA indicates likely upward pressure on audit fees for both years.
10.	Independent review of the sustainability of the local government audit market, 4 March 2020	PSAA publishes an independent review.

2. NATIONAL PUBLICATIONS

1. Statement on Covid-19, *Financial Reporting Council and other Regulators*, March 2020

A joint statement was issued by the Financial Reporting Council, the Financial Conduct Authority and Prudential Regulation Authority in response to the current situation.

The statement sets out that:

“Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly.

Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information”

This statement highlights:

- highlights likelihood of more modified opinions (where difficulties in obtaining evidence or other issues);
- going concern assumption considerations and uncertainties; and
- guidance for companies and auditors.

<https://www.fca.org.uk/news/statements/joint-statement-fca-frc-pra>

2. CIPFA Bulletin 05: Closure of the 2019/20 Financial Statements, *Chartered Institute of Public Finance and Accountancy*, 30 April 2020

This is technical guidance for those preparing financial statements. It covers emerging or urgent accounting issues. The bulletin for the 2019/20 financial statements includes guidance on accounting for issues relating to the COVID-19 pandemic.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

3. CIPFA Code of practice on Local Authority Accounting in the United Kingdom 2020/20, July 2020

CIPFA has published the Code of Practice on Local Authority Accounting in the United Kingdom for 2020-21.

This version of the Code is effective from 1 April 2020 and introduces a number of important amendments relating both to context and an understanding of the Code requirements. Some of the changes for 2020-21 include:

- implementation of amendments to IAS 19 - plan amendment, curtailment or settlement, including guidance on initial proxy assessment of quantitative materiality;
- amendments to reporting by pension funds to align with presentation practice under the Pensions SORP; and
- amendments relating to financial instruments.

The 2020-21 Code also includes a new appendix which sets out the reporting text for the implementation of the deferred IFRS 16 (leases). This appendix will apply from 1 April 2021 and should allow local authority accounts preparers to make effective preparations for the implementation of the standard in 2021-22

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021-hard-copy>

2. NATIONAL PUBLICATIONS

4. Overview of the UK government's response to the COVID-19 pandemic, *National Audit Office*, 21 May 2020

Significant outbreaks of disease are among the greatest risks faced by any society, threatening lives and causing significant disruption to public services and the economy. The scale and nature of the current COVID-19 pandemic and government's response is unprecedented in recent history.

This report is the first of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its scrutiny of the UK government's response to COVID-19.

<https://www.nao.org.uk/report/summary-of-uk-governments-response-to-the-covid-19-pandemic/>

5. Code of Audit Practice, *National Audit Office*, March 2020

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies. Schedule 6 of the Act extends this requirement to include NHS Foundation Trusts.

Local auditors must comply with the Code of Audit Practice. The Code must be reviewed at least every five years, so the Code that applies will depend on the financial year being audited.

The final draft of the latest Code has now been approved by Parliament and will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. The NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). NAO plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

We will brief the Committee on changes as more guidance emerges over the year. Key messages from the new Code are summarised below:

Audit of the financial statements

Auditors must still comply with underlying auditing standards.

Value for money arrangements

- Removal of 'except for' and 'adverse' conclusions.
- Work based around 3 reporting criteria:
 - Financial sustainability
 - Governance
 - Improving the 3Es – economy, efficiency and effectiveness
- Auditors must report when they are not satisfied that arrangements are in place. Where weaknesses are identified, recommendations are expected at any time of the audit.

Auditor reporting

- Auditor's Annual Report introduced:
 - Replaces Annual Audit Letter
 - Includes enhanced commentary against each of the specified VFM reporting criteria
 - To be issued in line with the audit report on the financial statements

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

2. NATIONAL PUBLICATIONS

6. Public Accounts Committee follow up report to Local authority investment in commercial property

Following the report issued by the NAO in February 2020 the Public Accounts Committee has now published its follow up report on the matters raised.

The report draws a number of conclusions including:

- The Ministry of Housing, Communities and Local Government (MHCLG) has been complacent while £7.6 billion of taxpayers' money (includes an extra £1 billion spent in the first half of 2019-20) has been poured into risky commercial property investments.
- MHCLG's failure to ensure that authorities adhere to the spirit of the framework has led to some authorities taking on extreme levels of debt which is both risky and sends a mixed message to the sector.
- Where LAs use prudential borrowing, they must set aside money each year to repay the debt.
- The prudential framework has been impaired by the emergence of new forms of behaviour in the sector, and this now requires fundamental review.
- MHCLG does not have access to the data it needs to carry out its oversight responsibilities properly.

The report also outlines a number of recommendations including:

- MHCLG must be more active in its oversight of the prudential framework and strike a better balance between supporting localism and ensuring that LAs act within the frameworks that underpin local freedoms.
- For MHCLG's future oversight of the prudential framework it needs to develop, and rapidly deploy, interventions that target extreme risk taking. These should be used as part of a wider package of measures to limit non-compliance with the framework, regardless of scale.
- The department should undertake a review of the MRP guidance and consider whether its statutory basis should be strengthened and how to require LAs to improve the clarity and transparency in relation to commercial property purchases.
- Working with CIPFA and sector stakeholder bodies, MHCLG should undertake a thorough review of the prudential framework, that addresses the issues identified in the report. MHCLG should publicly report within the next 12 months and the review should incorporate the recommendations relating to challenging behaviour in the sector, designing effective interventions and improving the data held by the department.

<https://publications.parliament.uk/pa/cm5801/cmselect/cmpubacc/312/31202.htm>

2. NATIONAL PUBLICATIONS

7. PSAA Publishes Findings of Audit Survey, *Public Sector Audit Appointments*, 7 May 2020

PSAA has published the findings of a survey of audited bodies' feedback on their audits of 2018/19 accounts.

In the past, surveys have been undertaken by the audit firms themselves and have sought the responses of client Chief Finance Officers (CFOs) to a relatively small number of high level questions.

This year, coinciding with the first audits under Appointing Person arrangements, PSAA has introduced a new approach which incorporates a number of important changes.

To assure independence and confidentiality, it has commissioned the LGA's Research & Information team to administer the survey centrally. The views of both CFOs and Audit Committee Chairs have been sought recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. A longer list of survey questions has also been developed to probe more deeply into respondents' experience of different aspects of the audit and the auditor's performance.

PSAA hopes that audited bodies will find the survey results interesting and helpful in terms of stimulating discussion about their audit, identifying areas in which it went well or might have been improved. PSAA is encouraged by the volume of data which its new survey has generated and the opportunity it provides to identify good practice and/or discuss specific areas for improvement with individual audit firms.

We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.

<https://www.psa.co.uk/2020/05/psaa-publishes-findings-of-audit-survey/>

8. News release: Q&As, *Public Sector Audit Appointments*, 9 April 2020

PSAA consulted on the 2020/21 scale fees earlier this year and published the 2020/21 scale fees on 31 March 2020. Not surprisingly in these turbulent times for audit the consultation responses contained many questions. PSAA have published a 'Q&A', setting out their answers to them.

<https://www.psa.co.uk/2020/04/news-release-qas/>

2. NATIONAL PUBLICATIONS

9. 2020/21 audit fee scale, *Public Sector Audit Appointments*, 31 March 2020

The consultation set out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:

- issues which have given rise to additional audit work in relation to the 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews being undertaken and referred to in this progress report (see item 7 above); and
- the introduction of the new NAO Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.

In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.

The expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits, with a specific aim also to look ahead to identify any implications for 2020/21. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process.

Link to the PSAA consultation is set out below:

<https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

PSAA published its scale fees for 2020/21 on 31 March 2021, and concluded that:

"In current circumstances we do not have sufficient reliable information that would enable us to adjust the scale of fees for 2020/21, and so have maintained the scale fee at the level set for 2019/20 before audit work had started. In practice we recognise that in the event, with so much turbulence and change in the environment, additional fees variations are likely to arise for many bodies."

<https://www.psa.co.uk/audit-fees/2020-21-audit-fee-scale/>

10. Independent review of the sustainability of the local government audit market, *Public Sector Audit Appointments*, 4 March 2020

PSAA has recently commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard (TR).

The TR report draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31st July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams.

<https://www.psa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/>

CONTACTS

Director
Mark Surridge

Mobile: 0787 597 4291

Email: mark.surridge@mazars.co.uk

Manager
Jon Machej

Mobile: 0776 654 0252

Email: jon.machej@mazars.co.uk