

# Audit Progress Report

City of Lincoln Council

8 March 2021



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# 01

Section 01:  
**Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Audit Committee for its 23 March 2021 meeting with an update on progress in delivering our responsibilities as your external auditors.

The report also includes at Section 2 for your information a summary of recent reports which we believe are relevant to your responsibilities.

## Audit progress

### 2019/20 Audit

Our audit of the 2019/20 financial statements has continued and at the date of this report is close to completion. We will provide the Audit Committee with a verbal update on the latest position at the 23 March 2021 meeting. We will provide the Committee with an updated Audit Completion Report, with the completed audit findings, when we issue our audit opinion, and at the same time issue our Audit Certificate which will formally close the 2019/20 audit. Our 2019/20 Annual Audit Letter will be issued shortly after the closure of the audit and will be the final communication from us on the year's audit. The Annual Audit Letter will summarise our findings for the year and confirm the final 2019/20 audit fee.

There is still work in progress on the 2019/20 Housing Benefit Subsidy Claim. We expect to complete this work and issue the required assurance report by the 31 March 2021 deadline.

### 2020/21 Audit

We have commenced our audit planning for the 2020/21 audit and will present our Audit Strategy Memorandum (ASM) to the next Audit Committee meeting. We have continued to hold regular discussions with the finance team and these help us to keep up to date with emerging issues that may impact on our external audit.

At this stage we expect the profile of the Significant Audit Risks to be similar to that set out in our 2019/20 ASM, but we will say more on that at the Committee's next meeting. The consultation on the timetable for the 2020/21 financial statements' publication and audit has recently been carried out and we will confirm the specific dates for the detailed audit work with officers and set them out in the ASM.

The scope of the Audit and our audit responsibilities are set out in the 2020 Code of Audit Practice. The only significant change on the previous Code is in relation to our responsibilities relating to the Value for Money Conclusion. We say more on this on the next page.

# Audit Progress (continued)

## External audit work on the Council's arrangements to deliver value for money in its use of resources

We reported during 2019/20 that the National Audit Office (NAO) had updated their Code of Audit Practice and that this new Code applies from 2020/21. The new Code changes the work that auditors will be required to do, and the related reporting, on Councils arrangements to deliver value for money in their use of resources.

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in Council's arrangements they should report recommendations to the Council promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** how the body ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The new Code requirements represent a significant change to the focus and reporting of our value for money conclusion work.

NAO's guidance to auditors is publicly available through the following link.

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

NAO has still to confirm some of its specific guidance regarding the approach and reporting of this work, and our risk assessment of the Council's arrangements and any likely significant weaknesses is in progress.

We will keep the Audit Committee up to date on our progress as we complete our audit work.

# 02

Section 02:

**National Publications**

# National Publications

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<b>CIPFA</b>			
1	<b>Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts</b>	2020/21 Disclosure checklist	9
2	<b>Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts</b>	2020/21 Code Guidance Notes	9
3	<b>Service Reporting Code of Practice for Local Authorities 2021/22</b>	2020/21 SeRCOP Guidance	9
4	<b>Guidance for Head of Internal Audit Annual Opinions 2020/21</b>	Guidance	10
5	<b>A Guide to Local Authority and Public Sector Asset Management</b>	Step-by-step guide	10
6	<b>Planning to Deliver Good Value in Demand-led Services (social care)</b>	Good practice framework	10
7	<b>Fraud and Corruption Tracker</b>	CIPFA's latest information has been published.	11
8	<b>Consultation on stronger Prudential Code</b>	CIPFA is consulting on the Prudential Code, including proposals to strengthen the requirements for commercial investments.	11
9	<b>CIPFA Bulletin 06 – Application of the Good Governance Framework 2020/21</b>	Provides updated guidance and takes into account the introduction of the CIPFA Financial Management Code 2019 during 2020/21.	11
<b>National Audit Office</b>			
10	<b>Local auditor reporting application</b>	Data on local auditor reporting presented through an interactive map	12

# National Publications

	Publication/update	Key points	Page
<b>MHCLG</b>			
11	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	13
12	Consultation on Amendments to the Accounts and Audit Regulations 2015	MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.	13
<b>Financial Reporting Council</b>			
13	Local Audit Inspections	FRC Audit Quality report	14



# NATIONAL PUBLICATIONS

## CIPFA

### **1. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021**

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

<https://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print>

### **2. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021**

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print>

### **3. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021**

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

<https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122>

# NATIONAL PUBLICATIONS

## CIPFA

### **4. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020**

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's annual governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee, should take.

To further support the guidance CIPFA held a free webinar on 15 December.

<https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021>

### **5. A Guide to Local Authority and Public Sector Asset Management, November 2020**

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

### **6. Planning to Deliver Good Value in Demand-led Services (social care), November 2020**

Several local authorities successfully deliver good value in these areas, and this publication draws on their experience and best practice. It sets out a three step framework, based on a number of essential elements that recognise the challenges involved. This framework emphasises the importance of business partnering and ensuring plans reflect reality to enable improved operational and financial resilience.

<https://www.cipfa.org/policy-and-guidance/publications/p/planning-to-deliver-good-value-in-demand-led-services-social-care>

# NATIONAL PUBLICATIONS

## CIPFA

### **7. Fraud and corruption Tracker, February 2021**

The latest CIPFA Fraud and Corruption Tracker (CFaCT), which includes local government data between 1 April 2019 and 31 March 2020, provides a baseline illustration about the prevalence of grant fraud in the public sector, just before unprecedented levels of COVID-19 grant funding for councils were released by the government in March of last year. The report follows previous warnings from the National Crime Agency and other law enforcement bodies of an increase in cases related to suspected COVID-19 grant fraud. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

The report also shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20. This year, 32% of respondents also stated their organisation had been a victim of a Distributed Denial-of-Service (DDOS)/hacking attack in the last 12 months, a 5% increase from the previous year. Survey respondents also expressed concern about councils' inability to tackle usual areas of fraud due to resource being re-directed into the processing and review of COVID-19 business grants.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/grant-fraud-represented-less-than-of-uk-public-sector-fraud-pre-pandemic>

### **8. CIPFA consults on a stronger Prudential Code, January 2021**

CIPFA has launched a consultation on proposals to strengthen the Prudential Code, following growing concerns over local government commercial property investments. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. To date, the provisions in the Code have not prevented a minority of councils from taking on disproportionate levels of commercial debt to generate yield. The proposed changes are intended to prevent future misinterpretations of the Code and strengthen the necessary regard to its provisions to protect local decision making and innovation. The consultation will be open for 10 weeks and responses must be submitted by 12 April 2021.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-consults-on-stronger-local-government-prudential-code>

### **9. CIPFA Bulletin 06, Application of the Good Governance Framework 2020/21, February 2021**

This bulletin covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-06-application-of-the-good-governance-framework-202021>

# NATIONAL PUBLICATIONS

## National Audit Office

### 10. Local auditor reporting application, December 2020

The local auditor reporting application presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

# NATIONAL PUBLICATIONS

## MHCLG

### 11. MHCLG's response to Sir Tony Redmond's independent review, December 2020

The response of the Ministry of Housing, Communities and Local Government to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they "do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission". They added that they "will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function."

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

### 12. MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015, February 2021

MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.

The draft regulations includes provisions, at regulation 2 to change the publication deadline for principal authorities from 31 July to 30 September as proposed in recommendation 10 by the Redmond review, but for 2 years - 2020/21 and 2021/22. The intention is for the amended deadline to be reviewed after that period when it will be clearer as to whether the audit completion rate has improved.

The draft regulations also enable principal bodies to publish their draft accounts for inspection, linked to the later publication deadline, by removing the fixed period for public inspection, to say instead that the draft accounts must be published on or before the first working day of August. This will allow authorities and audit firms more flexibility to schedule their audits in line with the later publication deadline but, importantly, will not prevent them from being signed off earlier. This mirrors the approach taken in the Accounts and Audit (Amendment) (Coronavirus) Regulations 2020.

MCHLG's consultation closed on 1 March 2021.

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 13. Major Local Audits – Audit Quality Inspection, October 2020

#### The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

#### Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found [here](#). This also includes our detailed response to their findings on our financial statement audits.

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 13. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

#### What this means for the Council

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (including investment properties) and the audit of defined benefit pension liabilities, we must do more to meet the regulator's expectations. This means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Council's own experts. There will be consequential effects on the fee that we are likely to request from the Council to undertake the audit.

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