

Audit Planning Update 2021/22 and Progress Report

City of Lincoln Council

Audit Committee June 2022



1. Audit Planning 2021/22 and Progress
2. National publications

01

Section 01:
Audit Progress

Purpose of this report

This report provides the Committee's June 2022 meeting with updates on:

- the 2021/22 audit and any significant matters to date; and
- recent relevant reports and publications for your information (Section 2).

2021/22 Audit

We have summarised in this report the for the Audit Committee the key planning issues for 2021/22.

Scope of the Audit and our responsibilities

The scope of our is unchanged engagement and is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>.

Our responsibilities continue to be are principally derived from the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

- Audit Opinion – giving an opinion on the 2021/22 Financial Statements
- Value for Money - forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources
- Electors' rights - The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom
- Reporting to the NAO - We report to the NAO on the consistency of the Council's financial statements and the matters arising from our audit which are relevant to the Council's Whole of Government Accounts (WGA) submission

Audit Engagement Team

Your audit engagement team is unchanged and continues to be lead by Mark SurrIDGE (Director and Key Audit Partner) and Mike Norman (Senior Manager).

There will continue to be an Engagement Quality Control Reviewer appointed for this audit.

Audit Approach and timeline

Our audit approach is risk based; primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. The diagram below outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable.

There are no significant matters arising from the Planning and Interim visits to bring to the Committee’s attention. We will present the agreed Audit Strategy Memorandum to a future meeting of the Committee.

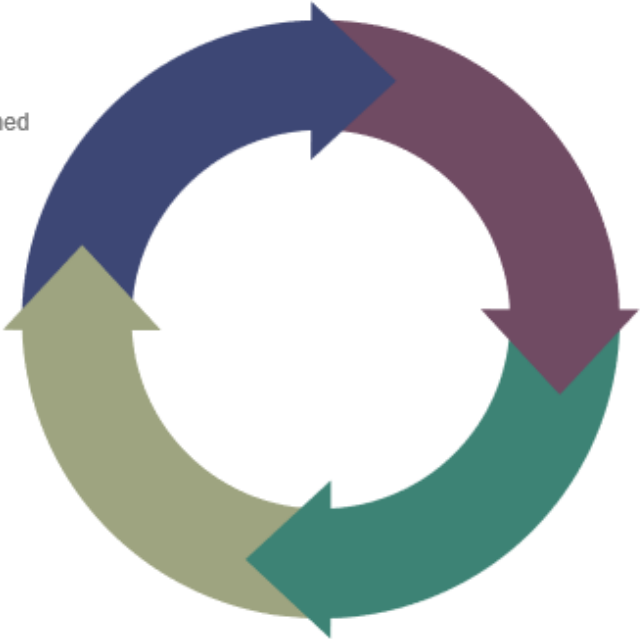
The completion of the audit has been significantly delayed in the last two years and one of the objectives for this year is to complete the audit in line with the national timetable. We will keep the Committee informed as the audit progresses.

Planning – March/April

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion – November **

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report



Interim – April/May

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork – July to September *

- Receiving and reviewing draft financial statements
- Technical review of financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

* Specific dates for the audit visits being confirmed with management to accommodate audit and client staff availability during this period. Expected to be a hybrid of on-site and remote working.

** Final completion is subject to, amongst other things, the timely provision of information by third parties and us being able to fully complete the audit procedures to the required quality standards.

Audit Reporting

Our main reporting outputs will continue to be:

- Audit Strategy Memorandum – summarising the outcomes from our audit planning and proposed response.
- Audit Completion Report – summarising the outcome of our main accounts audit and expected audit opinion.
- Audit Report – encompassing our Audit Opinion on the financial statements and other required information.
- Annual Auditor’s Report – including our Value for Money Commentary
- Audit Certificate – formally closing the audit

The Council had had £0.56m of listed debt as at 31 March 2022 and is designated as a Public Interest Entity (PIE), which includes organisations with transferable securities listed on EU regulated markets and governed by the law of an EU member. There are additional requirements at both the planning, fieldwork and the reporting stages of the audit, culminating in the longer-form audit report.

Significant Audit Risks

From the planning work so far we expect the significant audit risks (including those which will be reported on in our Audit Report as ‘Key Audit Matters’) to be as follows:

Significant Audit Risk	Description	Key Audit Matter?	Identified previous year?
Management override of controls	This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	No	Yes
Property Valuation	Property related assets are a significant balance on the council’s balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.	Yes	Yes
Valuation of net defined benefit liability	The Council’s accounts contain material liabilities relating to the local government pension scheme. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	Yes	Yes
Expenditure recognition (focus on accruals and cut-off)	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	No	Yes

Materiality

We expect to again set materiality based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee. We do not expect to alter these thresholds compared to the previous year and plan to base them on the following levels:

Threshold	
Overall materiality	1.5% of benchmark
Performance materiality	75% of overall materiality
Specific materiality:	
• Officers’ remuneration	£5k
Trivial threshold for errors to be reported to the audit committee	3% of overall materiality

Value for Money Work

We have not identified any specific significant concerns from the value for money risk assessment to date and there are no risks of significant weaknesses in arrangements to bring to the Committee’s attention. We will keep our assessment up to date and report ou

The scope of the assessment is largely unchanged through the latest NAO guidance and the work carried out in 2020/21, helped by the management self assessment with supporting evidence, provides a good platform for the 2021/22 assessment. We are continuing to carry out desk top procedures to update our assessment and will report any matters arising if required. The Financial Stability theme is as expected an area where we expect at all Councils to have to continue to keep our assessment up to date, given amongst other things the continuing uncertainty over future funding and cost pressures.

Non-Audit Work

We expect to again agree separate engagements for the following pieces of non-audit work:

- Housing Benefits Grant Certification
- Pooling of Housing Capital Receipts Return Certification

We are satisfied there are appropriate safeguards in place regarding any threats to our independence in relation to this and our core audit work.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	Updated statement on the deferral of IFRS 16 leases	Following its emergency consultation on proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement.
2	CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets	The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets.
Department for Levelling Up, Housing and Communities		
3	Creation of the Audit Reporting and Governance Authority	A new regulator, the Audit Reporting and Governance Authority (ARGA), to be established as the system leader for local audit within a new, simplified local audit framework.
National Audit Office (NAO)		
4	Audit and Assurance Committee effectiveness tool	NAO's effectiveness tool provides a way for ARACs to assess their effectiveness
Public Sector Audit Appointments Ltd		
5	Annual Quality Monitoring Report 2019/20	This covers the work of local auditors appointed by PSAA for the 2019/20 financial year. The report provides information from PSAA's quality monitoring arrangements throughout the year, survey results and findings from professional regulation and contractual compliance. The report details how the Financial Reporting Council reviewed four Mazars financial statements audits and all were assessed as meeting the required standard.

NATIONAL PUBLICATIONS

CIPFA

1. Updated statement on the deferral of IFRS 16 leases – April 2022

Following its emergency consultation on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement. This preliminary decision was subsequently considered by the government's Financial Reporting Advisory Board (FRAB). FRAB advised CIPFA LASAAC that it agreed with the deferral of IFRS 16 Leases until 1 April 2024. FRAB also advised CIPFA LASAAC that the Code had to allow and should encourage local authorities to adopt the standard before this date should they wish to.

CIPFA LASAAC has therefore followed its preliminary decision with its formal decision: to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023. CIPFA LASAAC would note that the 2022/23 Code has not yet completed its due process so local authorities should follow the CIPFA LASAAC pages of the website for further updates. Formal due process for the Code by LASAAC and by CIPFA's Public Financial Management Board is anticipated to be complete by the third week in April.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/updated-statement-on-the-deferral-of-ifrs-16-leases>

2. CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets – May 2022

The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. An urgent consultation on these proposals is now under way and comments are invited until the consultation closes on 14 June 2022 at 23.00.

The temporary proposals address an issue raised by auditors about the derecognition (removal of the carrying amount) of parts of local authority infrastructure assets as they are replaced. CIPFA LASAAC and CIPFA established a Task and Finish Group to find a solution to this issue and consider the outcome of any proposed changes to the code. Following advice from the Task and Finish Group, CIPFA LASAAC has now issued temporary proposals for changes to the code relating to how these issues are reported. They include:

- confirming the accounting consequences of derecognition, e.g. that the effect on the carrying amount is nil (on a presumption that the replaced parts are fully depreciated);
- temporarily adapting the code to remove the reporting requirements for gross historical cost and accumulated depreciation
- providing extra guidance on how depreciation may be applied for infrastructure assets
- CIPFA LASAAC will consult on a longer-term solution later in the year.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-lasaac-issues-urgent-consultation-on-code-of-practice>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

3. Creation of the Audit Reporting and Governance Authority – May 2022

Plans to ensure councils and local bodies are delivering value for money for taxpayers, strengthening council finances and reducing risk to public funds have been published by the government.

The government consultation response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA's establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022. This will be led by Neil Harris, who joins as the FRC's first Director of Local Audit to start up a dedicated local audit unit.

The Department for Levelling Up, Housing and Communities has been acting as interim system leader since July 2021, when it established and took the chair of the Liaison Committee of senior local audit stakeholders.

Work has already begun to address the challenges facing local audit with the government announcing a series of measures to improve local audit delays in December 2021.

The consultation response also announces plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.

The announcement comes as government today set out its wider plans to revamp the UK's corporate reporting and audit regime through a new regulator, greater accountability for big business and by addressing the dominance of the Big Four audit firms.

The government continues to work closely with stakeholders, including local bodies and audit firms, to refine proposals for implementing our commitments around system leadership, as well the range of other commitments we have made in response to the Redmond Review.

<https://www.gov.uk/government/news/greater-transparency-and-value-for-money-for-council-finance-system>

NATIONAL PUBLICATIONS

National Audit Office

4. Audit and Risk Assurance Committee effectiveness tool – May 2022

Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm's-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, NAO's effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The effectiveness tool is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

<https://www.nao.org.uk/report/audit-and-risk-assurance-committee-effectiveness-tool/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

5. Annual Quality Monitoring Report 2019/20 – April 2022

This covers the work of local auditors appointed by PSAA for the 2019/20 financial year, which was undertaken during a difficult time for all concerned. The systemic issues that were highlighted in Sir Tony Redmond's Review continued and were compounded by the pandemic.

In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting.

In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function.

The next year is likely to continue to be very challenging for all involved in local audit, but DLUHC (formerly MHCLG) will take forward and refine its proposals in its role as interim systems leader until ARGA is created, and the FRC will create a local audit unit in shadow form.

The problems that Sir Tony Redmond reported on continue to impact significantly on the timely completion of local government audits. Only 45% of audit opinions were completed by the publishing date of 30 November 2020, compared with 58% in the previous year. This has now fallen even further with only 9% for 2020/21 audits of financial statement opinions completed (noting the reversion to a 30 September publishing date). Delayed audit opinions have a real public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. It is imperative that the whole system works together to restore timely completion of audits in order to rebuild public confidence and trust, especially as the lack of a statutory deadline for the audit opinion means that co-operation is essential to make the system work as the public has the right to expect it to.

<https://www.psa.co.uk/managing-audit-quality/annual-audit-quality-reports-from-2018-19/annual-reports/audit-quality-monitoring-report-2019-20/>

Contact

Mazars

Director: Mark Surridge

Email: mark.surridge@mazars.co.uk

Senior Manager: Mike Norman

Email: michael.norman@mazars.co.uk

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