

Audit Planning Update and Progress Report

East Lindsey District Council

Audit and Governance Committee November 2022



1. Audit Planning Update and Progress
2. National publications

01

Section 01:
Audit Progress

Purpose of this report

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

- the 2020/21 and 2021/22 audits and any significant matters to date; and
- recent relevant reports and publications for your information (Section 2).

2020/21 Audit

We presented our Audit Completion Report for 2020/21 to the September 2021 meeting, and noted a number of areas of work as remaining outstanding at that point in time. On the 29th November 2021 we issued our Follow-up Letter to this report setting out our progress against these matters. We have summarised below the current position on the key elements of our work that still remain outstanding:

Whole of Government Accounts (WGA)

Whilst the National Audit Office has issued its auditor instructions for the 2020/21 WGA process further clarification on some key points is still awaited to enable this work to be concluded. Once received we expect this work to be completed relatively quickly.

Audit Certificate

The Audit Certificate will be issued, and the audit formally 'closed', when the remaining stages set out above have been completed.

2021/22 Audit

The detailed Audit Strategy Memorandum for 2021/22 was reported to the April 2022 meeting and there have been no changes to the risks identified since that date.

Audit Reporting

Our main reporting outputs from our work will continue to be:

- 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

Financial Statements

We received the Council's draft financial statements on 4th July and our audit commenced on this date. Our work is progressing well although there are a small number of areas of work that still remain in progress, which we set out below:

Audit area	Status	Description of outstanding matters
Journals	Incomplete	We have received the outstanding evidence from management in relation to our sample testing and we are currently finalising our work in this area.
Group accounts	Incomplete	The Council has a requirement for the first time to produce Group Accounts as a result of the growing activities of its subsidiary company INVEST East Lindsey Ltd. We are yet to receive these from management and our work over both the Council's consolidation arrangements and detailed testing of any material balances has yet to commence.
Property, plant and equipment	Incomplete	We have received the outstanding evidence from management's expert in relation to our sample testing and we are currently finalising our work in this area.
Pensions	Incomplete	Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Lincolnshire Pension Fund. We are yet to receive their final report for our consideration and completion of the testing required. As part of these arrangements we are also aware of a change in the underlying assets held within the Pension Fund since the Council obtained its IAS 19 accounting reports on which it has based its accounts entries. Management have commissioned a revised report from the actuary to quantify the impact of these changes on the Council and this is yet to be received.
Property Fund Investments	Incomplete	During the year one of the Council's investments has closed and is winding up with the manager looking to dispose of all property assets and return cash to investors. We are still discussing with management the necessary accounting entries required to account for these, in particular ensuring that any capital receipt or loss in value is appropriately applied to reduce the Council's Capital Financing Requirement, in accordance with the Council's MRP policy.
Going concern	Incomplete	We have yet to receive management's own assessment to justify why its accounts should be prepared on a going concern basis.
Whole of Government Accounts (WGA)	Incomplete	NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time.

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 our findings in the Annual Auditor's Report

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.

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 consultation on Code of Practice – Infrastructure Assets	The CIPFA LASAAC Local Authority Code Board released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets.
3	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
Department for Levelling Up, Housing and Communities		
4	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.
5	Consultation on Infrastructure Asset Accounting	The Government is consulting on a proposed temporary Statutory Override to unlock the difficulty in agreeing an accounting solution to this matter.
National Audit Office (NAO)		
6	Audit and Assurance Committee effectiveness tool	NAO's effectiveness tool provides a way for ARACs to assess their effectiveness
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
8	Improving government data: A guide to senior leaders	The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past

National publications

Publication/update		Key points
Public Sector Audit Appointments Ltd		
9	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.
Financial Reporting Council		
10	Major Local Audits – Audit Quality Inspection	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

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 released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. Consultation on the proposals closed 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.

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

3. 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>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

4. 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 and Risk Scrutiny Committees compulsory for all councils, with each Audit and Risk Scrutiny 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

Department for Levelling Up, Housing and Communities

5. Consultation on Infrastructure Asset Accounting – October 2022

CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code. Use of the override is expected to be optional, and authorities may choose not to apply it.

It is the government's view that this is a necessary, short-term solution to avoid the widespread qualification of local authority accounts. The government recognises that a long-term solution is required, but due to the complexity of the issue this will necessarily take time, and there is an immediate need to mitigate the risks of widespread qualifications and delays to audit. The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The government is conducting this call for evidence to seek views from sector stakeholders on the effectiveness and clarity of the proposed statutory override.

The consultation includes a draft Statutory Instrument and Explanatory Memorandum. The Indicative date when this Statutory Instrument could take effect is 25 December 2022, so it is unlikely that auditors will be able to issue any audit opinions on clients with material infrastructure assets until January 2023.

[The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022: call for evidence - Department for Levelling Up, Housing and Communities - Citizen Space](#)

NATIONAL PUBLICATIONS

National Audit Office

6. 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/>

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/>

NATIONAL PUBLICATIONS

National Audit Office

8. Improving government data: A guide to senior leaders - July 2022

The NAO has published Improving government data: A guide for senior leaders aimed at accounting officers, chief executives, director generals, directors and chief operating officers and people responsible for government services. The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past. The guide focusses on data to support the operational delivery of public services, but much of the guide will also be relevant to data for decision-making and to improve performance

<https://www.nao.org.uk/insights/improving-government-data-a-guide-for-senior-leaders/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

9. 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/>

NATIONAL PUBLICATIONS

Financial Reporting Council

9. Major Local Audits – Audit Quality Inspection – October 2022

The Financial Reporting Council (FRC) has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

The headlines from the FRC report are that:

- The number of audits categorised as good or limited improvements required has remained consistent with the prior year. FRC assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years. However, FRC identified the increased number of audits assessed as requiring significant improvements (15% in 2021/22 and none in 2020/21) as unacceptable and states that inconsistency is preventing firms from eradicating poor quality audits.
- Based on their inspections, FRC state that the quality of auditors' work on VfM arrangements remains high at all but one firm. Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

FRC is concerned at the timeliness of reporting in the sector and raises this as a priority improvement area for audited bodies and auditors.

<https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf>

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