

Audit Progress Report

East Lindsey District Council

Audit and Governance Committee November 2023



1. Audit Progress
2. PSAA Audit Quality feedback
3. National publications

01

Section 01:
Audit Progress

Purpose of this report

This report provides the Committee's November 2023 meeting with updates on:

- the 2020/21, 2021/22 and 2022/23 audits and any significant matters to date;
- PSAA Audit Quality feedback (Section 2); and
- recent relevant reports and publications for your information (Section 3).

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. In March 2023 we reported that the following matters were outstanding:

Whole of Government Accounts (WGA)

Whilst the National Audit Office had issued its auditor instructions for the 2020/21 WGA process they were yet to decide on a sample of authorities to undergo additional audit procedures. We were therefore unable to fully conclude this matter.

Audit Certificate

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

We can confirm that the above matters have been finalised and the audit certificate was issued in July 2023.

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.

Financial Statements

We received the Council's draft financial statements on 4th July 2022 and our audit commenced on this date. We presented a progress update to the Committee in March 2023 which detailed the outstanding areas as set out below. The below table confirms any further updates since that date

| Audit area | Status | Description of outstanding matters as reported in March 2023 | Update as at November 2023 |
|------------------------------------|------------|--|---|
| 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. We have been made aware however, of a qualification on the accounts of the Council's subsidiary company. We will need to discuss this with the Council's officers to fully understand the rationale for this and to consider the implications for our required audit work and impact on our audit report on the Council's Group Accounts. | Nothing to update. We are still waiting to receive group accounts from management. As such, work in this area has not yet commenced. |
| 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. | Nothing to update. We still have not received management's going concern assessment. |
| 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. | We have received partial instructions which allow us to commence the work, however we await full instructions which confirm whether East Lindsey is selected to complete extended procedures. As such, we remain unable to issue the audit certificate. |

Elector Queries

During the year we have received correspondence from electors, one of which was accepted as an objection. The matter was concluded in June 2023 and no use of audit powers was deemed necessary.

2022/23 Audit

Whilst we have commenced some initial planning work for the 2022/23 audit, we have not yet presented our Audit Strategy Memorandum for the year.

We are yet to receive revised 2021/22 accounts as detailed above, and as such have not yet presented our 2021/22 Audit Completion Report. The findings from the 2021/22 audit may impact the 2022/23 accounts, and our initial planning and risk assessment for the audit. We are therefore unable to finalise our audit approach for 2022/23 at this stage.

Value for Money Work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider. Our responsibility is to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks.
3. **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.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment

Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and members

Additional risk-based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.

Our commentary will also highlight:

- Significant weaknesses identified and our recommendations for improvement
- Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist. As with our work on the financial statements, we need to ensure our approach appropriately considers the Council's partnership arrangements and the table below outlines the risk of significant weaknesses in arrangements that we have identified to date.

We will report any further identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.

| | Risk of significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Planned procedures |
|---|---|--------------------------|------------|-------------------|--|
| 1 | <p>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</p> <p>We are still to receive group accounts from the Council in respect of its wholly owned subsidiary company INVEST East Lindsey Ltd. We are also aware that the statutory accounts in respect of this company have been qualified by its external auditors in relation to non-compliance with the Companies Act 2006, in particular the duty to keep adequate accounting records.</p> <p>We believe the above issues present a risk of significant weakness in the Council's arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) including:</p> <ul style="list-style-type: none"> • how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships; • how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.* | - | ● | - | <p>Our work will include, but not be limited to:</p> <ul style="list-style-type: none"> • Reviewing the detailed Audit Completion (ISA 260) Report from the external auditors to INVEST East Lindsey Ltd.; • Reviewing relevant internal audit reports; • Meeting with Officers, Internal Audit and, if necessary, the external auditors to INVEST East Lindsey Ltd.; and • Considering the relevant governance arrangements put in place by the Council over its investment in INVEST East Lindsey Ltd. |

*Criteria as defined by Auditor Guidance Note 3 (AGN 03), Auditors' Work on Value for Money (VFM) Arrangements, December 2021

02

Section 02:

PSAA Audit Quality Feedback

PSAA quality of audit services feedback survey

In August 2023 Public Sector Auditor Appointments Ltd (PSAA) published its fourth annual report on feedback from Finance Directors and Audit Committee Chairs of local authorities on their satisfaction with the audit services provided by local auditors. The feedback was obtained in March 2023 and relates to audit work delivered during 2022. In that year, Mazars was one of five firms delivering local audits to local authorities in England.

This feedback provides the Audit Committee with an independent view on the client service that the Mazars Public Sector Audit team provides in delivering audits under the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

The overall response rate from the Finance Directors was 47 per cent (220/467) and from Audit Committee Chairs, 30 per cent (142/467).

You can view the full PSAA report at [PSAA-Quality-of-Audit-Services-2021-22-feedback-survey.pdf](#)

We include on the next slides 4 key focus areas from the report.



PSAA quality of audit services feedback survey

Research Report
March 2023

Research

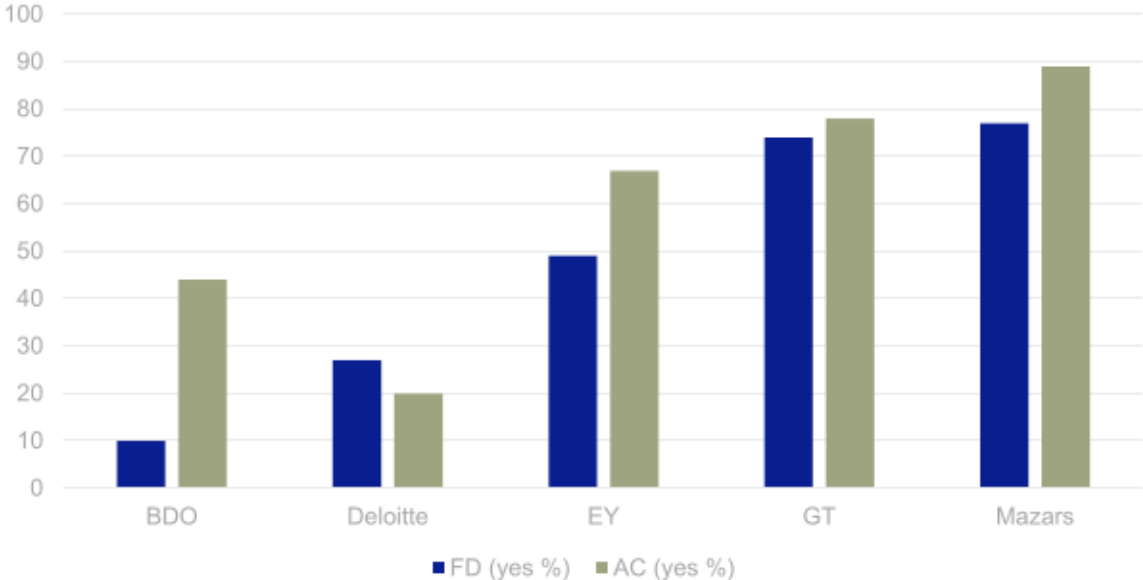


PSAA quality of audit services feedback survey

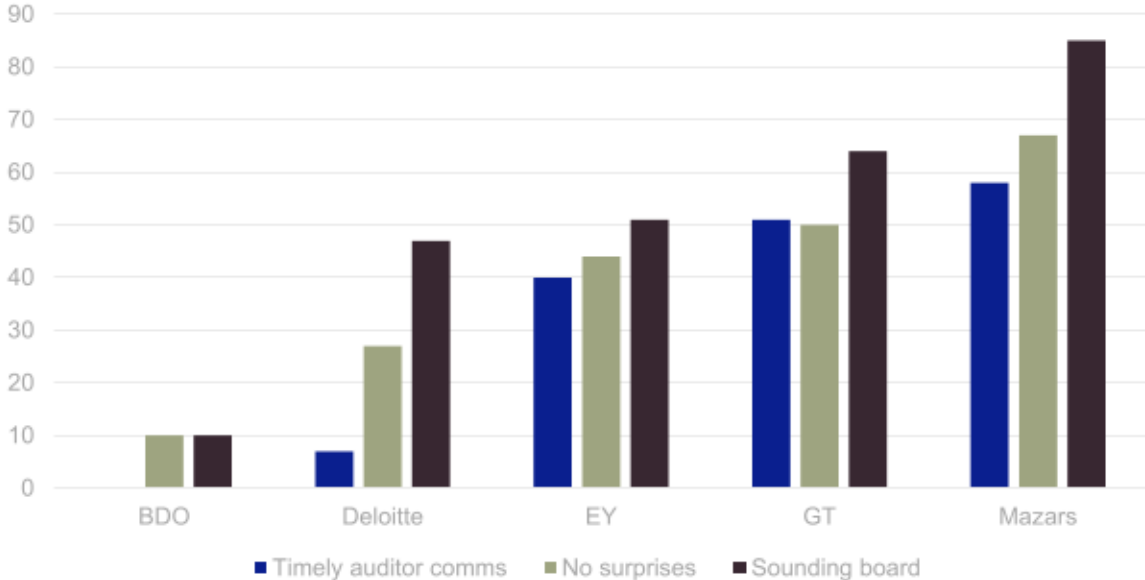
Focus area 1 - To what extent did the audit service meet your expectations?

Focus area 2 - To what extent did your auditor provide effective and timely communications? Were the communications timely, with no surprises and was the auditor approachable as a sounding board?

Did the audit service meet your expectations?



How effective were communications?

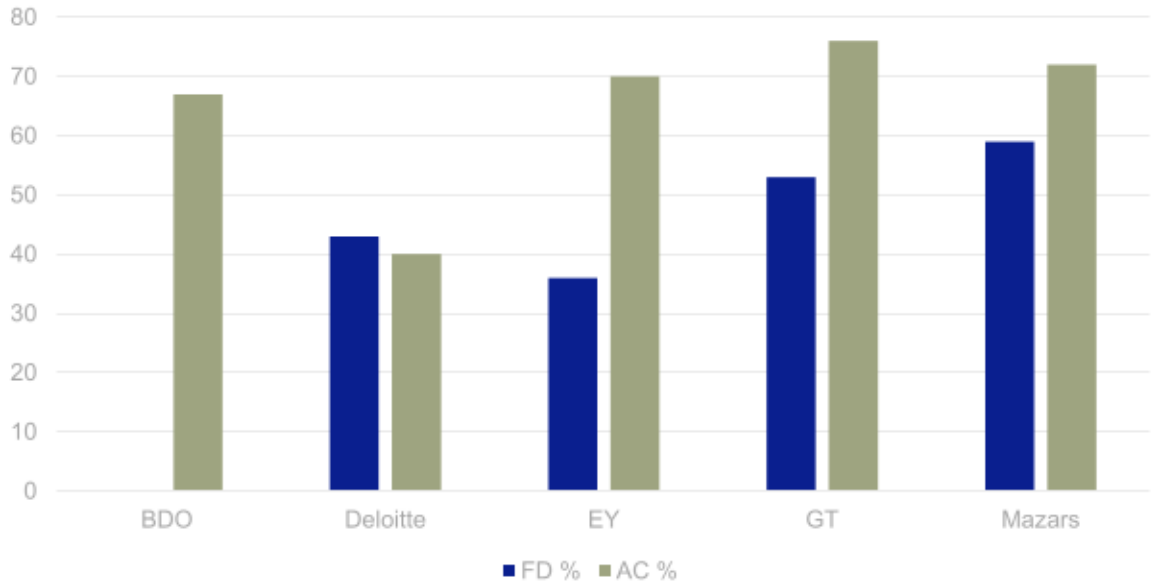


PSAA quality of audit services feedback survey

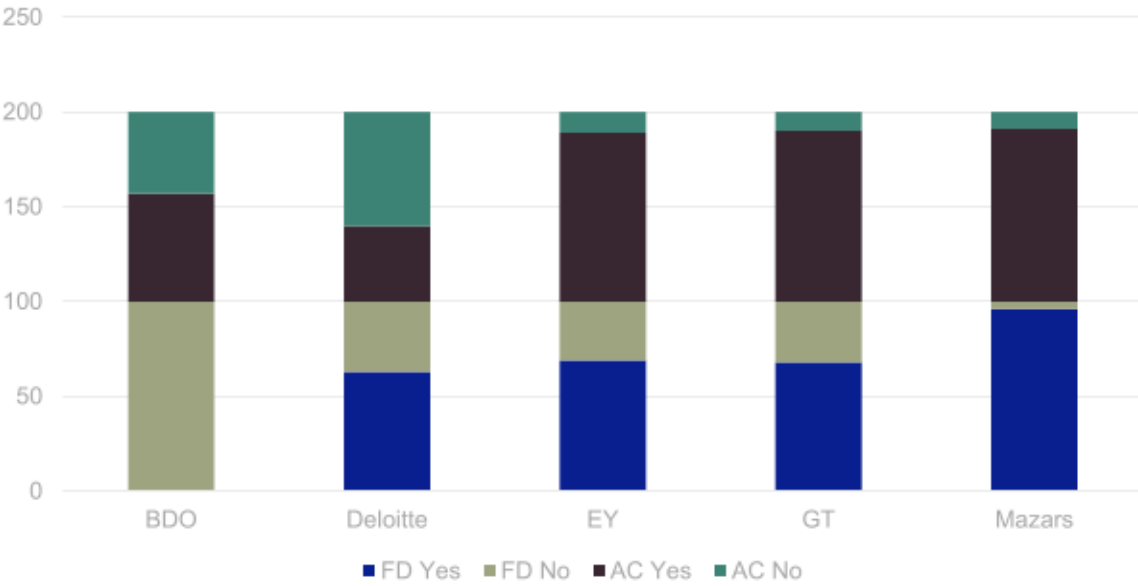
Focus area 3 – How useful did you find the auditor’s VFM Commentary (fairly and very useful responses)?

Focus area 4 – Where significant concerns and weaknesses were identified, were these reported on a timely basis – yes or no?

Was the VFM commentary useful?



Were significant matters reported on a timely basis?



03

Section 03:

National Publications

National publications

| | Publication/update | Key points |
|---|--|--|
| Key issues | | |
| National Audit Office (NAO) | | |
| 1 | Good practice in annual reporting | The NAO published an interactive guide that provides examples of good practice in annual reporting. |
| 2 | Tackling Fraud and Corruption in Government | This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption. |
| 3 | Digital Transformation | This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems. |
| 4 | Financial management in government: strategic planning and budgeting | This guide is for senior finance leaders in government departments and other public bodies. It sets out the first stage in the financial management lifecycle: strategic planning and budgeting. |
| Department for Levelling Up, Housing and Communities | | |
| 5 | Department consultation – public inspection of Category 1 authority accounts 2022/23 | The Department for Levelling Up, Housing & Communities (DLUHC) requested views on the current deadline for category 1 authorities to make their draft accounts available for public inspection. |
| 6 | Levelling up enquiry on Local Audit | The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings. |
| Other | | |
| 7 | ICAEW Vision for Local Audit | The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC). |
| 8 | Public Interest Report – Croydon Council | Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council. |

NATIONAL PUBLICATIONS

National Audit Office

1. Good practice in Annual Reporting – February 2023

The NAO has published an [interactive guide](#) that provides examples of good practice in annual reporting, drawing on examples from the public sector and other organisations shortlisted for the Building Public Trust Awards, which recognise trust and transparency in corporate reporting.

The guide draws on examples of good practice for annual reporting from organisations who are leading the way in this area. These examples are grouped by the sections of an annual report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

It also provides further examples where bodies have made their reports easier to understand with the use of graphics, clear and accessible language and signposting. The list is not definitive, but the NAO hopes it provides ideas for all bodies in both the public and private sector to think about as they plan their annual reporting for 2022-23.

NATIONAL PUBLICATIONS

National Audit Office

2. Tackling Fraud and Corruption against Government – March 2023

Since the start of the COVID-19 pandemic, government has recorded a higher level of fraud in the accounts we audit. This reflects the nature of the government's response to the pandemic, including the rapid implementation of large new spending and loan programmes that came with an unusually high risk of fraud.

This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.

The report follows NAO previous work which found government did not have a good understanding of fraud before the pandemic. In NAO's 2016 [Fraud landscape review](#), they found a large disparity between the level of fraud and error that the UK government reports and the level reported in other countries and the private sector. NAO also found there were few incentives for departments to record and report the true scale of potential fraud; a lack of data or metrics to evaluate performance in detecting and preventing fraud; and mixed capability across departments to tackle fraud.

The report can be found at the following link:

<https://www.nao.org.uk/reports/tackling-fraud-and-corruption-against-government/>

3. Digital Transformation in Government – Addressing the Barriers - March 2023

This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems. NAO focus on the approach to transforming government, how the Central Digital and Data Office, its Roadmap and departmental leaders will support and promote this, and whether senior business leaders across government have a suitable level of digital capability.

The report can be found at the following link:

<https://www.nao.org.uk/reports/digital-transformation-in-government-addressing-the-barriers/>

NATIONAL PUBLICATIONS

National Audit Office

4. Financial management in government: strategic planning and budgeting – September 2023

The guide outlines how finance leaders can plan strategically and realistically to:

- Align strategy and planning;
- Make planning inclusive;
- Plan dynamically;
- Address optimism bias; and
- Deal with risk and uncertainty.

The insights have been drawn from NAO reports, the experiences of NAO audit teams, and the thoughts of a range of senior finance decision-makers.

[Financial management in government: strategic planning and budgeting - NAO insight](#)

This guide is part of a series supporting financial management in the public sector. NAO also published the following guide in July 2023:

- [Enablers to success](#)

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

5. Department Consultation on public inspection of Category 1 authority accounts 2022/23 – February 2023

In March 2021 The Accounts and Audit (Amendment) Regulations 2021 amended the requirements about when accounts must be made available for public inspection for the 2020/21 and 2021/22 accounts, and provided that the period for the exercise of public rights needed to commence on or before the first working day in August in the following financial year.

For 2022/23, the statutory requirement for category 1 authorities is to make accounts available for public inspection for a period that includes the first 10 working days of June, effectively requiring them to be published by 31 May at the latest.

The Government launched a consultation exercise and went ahead with the proposal despite extensive feedback that the earlier deadline was impractical. The Council, along with most others, did not meet the 31 May deadline but there are no indications as yet that the 2024 timetable will be any later.

<https://consult.levellingup.gov.uk/redmond-response-team/request-for-views-draft-accounts-deadline/>

6. Levelling Up Committee launches inquiry on local audit – March 2023

The Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings. This led to a webinar in August 2023 at which ideas for reducing the backlog were discussed.

The inquiry will scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.

The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as 'red flag' for action by councils to address financial issues, and how auditors in local government could work together to share best practice.

The Committee welcomes written evidence on the terms of reference, which fall under the following headings:

- Users and uses of local authority accounts and audit
- Understandability and accessibility of local authority accounts and audit
- Making local authority accounts meet the needs of users better
- Addressing findings in audits and sharing best practice

<https://committees.parliament.uk/work/7348/financial-reporting-and-audit-in-local-authorities/news/186485/levelling-up-committee-launches-inquiry-on-local-audit/>

NATIONAL PUBLICATIONS

ICAEW

7. ICAEW Publishes its Vision for Local Audit – March 2023

The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).

The ICAEW welcomes the MoU, which covers the role of the 'shadow' system leader for local audit pending the establishment of the Audit, Reporting and Governance Authority (ARGA). The ICAEW also believes more needs to be done urgently if the local financial reporting and audit crisis is to be resolved.

The ICAEW's vision for local audit is designed to prompt discussion, identifying a series of challenges the ICAEW believes need to be overcome, and actions it supports to address those challenges. These are grouped into the following areas:

- Improve financial reporting to enhance transparency and accountability
- Deliver high-quality local audits on a timely basis
- Strengthen financial management and governance
- Reform finances to ensure value for money and protect the public interest
- Build a thriving profession that is highly valued

<https://www.icaew.com/insights/viewpoints-on-the-news/2023/mar-2023/ICAEW-publishes-its-vision-for-local-audit>

NATIONAL PUBLICATIONS

Public Interest Report

8. Croydon Council Public Interest Report – February 2023

Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council. His report, completed in March 2021, but only just published in February 2023 found that the dysfunctional leadership and poor governance arrangements contributed to the authority's financial collapse.

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability, and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control. The full report, which includes a number of lessons that other Councils can learn from, can be seen here:

<https://www.croydon.gov.uk/council-and-elections/budgets-and-spending/reports-and-reviews/report-public-interest-fairfield-halls>

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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.

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