

# Audit Progress Report

Ashfield District Council

Year ending 31 March 2021



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# Audit Progress

Since we presented our Audit Strategy Memorandum, we have:

- undertaken planning work for our 2020/21 audit, including liaison with relevant officers;
- undertaken interim audit work which involves documenting systems and controls; completing walkthroughs of key systems; updating our IT risk assessment; undertaking controls testing; and
- commenced some early substantive testing of transactions (including income and expenditure, payroll, journals and property, plant and equipment).

Our planned timetable of work is set out in the diagram below.

Our risk assessment is however an on-going process throughout the year.

At this stage, overall audit progress is on track, with no significant issues arising which we are required to report to the Council.

## Planning January 2021

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 September 2021

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 February - March 2021

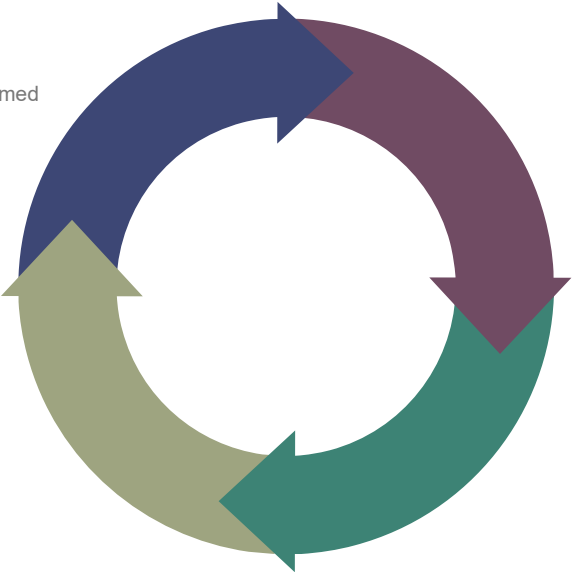
Documenting systems and controls

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

## Fieldwork June - August 2021

Receiving and reviewing draft 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



# Audit Approach Update

Matter	Considerations	Implications
<p>Service Organisations</p>	<p>In our Audit Strategy Memorandum, we reported that Nottinghamshire Pension Fund was a service organisation for the purposes of our audit approach.</p> <p>International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services</p>	<p>We have re-evaluated our assessment and concluded that Nottinghamshire Pension Fund does not meet the definition of a service organisation.</p> <p>There is no significant impact on our audit strategy or risk assessment.</p>
<p>Significant Audit Risks</p> <p><i>A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.</i></p>	<p>In setting our audit strategy, we set out the following significant audit risks:</p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of the net defined benefit pension liability</li> <li>• Valuation of land &amp; buildings, HRA dwellings, investment properties and other PPE related assets (where material).</li> </ul>	<p>Our work to date confirms that these risks remain appropriate for 2020/21.</p> <p>Valuation of land &amp; buildings: The Council has historically sought the advice of an expert RICS valuer in the preparation of the financial statements. During 2020/21, RICS established a Material Valuation Uncertainty Leaders Forum (UK) to consider the pandemic and its impact on financial reporting. The forum recommends that material valuation uncertainty declarations may not be required for all properties, except those in retail and leisure sectors, subject to valuer discretion for individual cases. We will consider the implications on the financial statement disclosures and our auditor's report on receipt.</p>
<p>Additional Audit Risk: Covid-19 Grants recognition</p>	<p>Throughout 2020/21, the Government has provided substantial sums of financial support to local authorities. Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, covering the following:</p> <ul style="list-style-type: none"> <li>• the extent to which the Council is acting as an agent or principal; and</li> <li>• whether conditions associated with the grants have been met at the reporting date.</li> </ul> <p>This creates a financial reporting risk as to whether income is appropriately recognised in the financial statements.</p>	<p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> <li>• reviewing the Council's approach to determine whether grants are or are not ringfenced for specified areas of expenditure; and</li> <li>• testing a sample of grant income recorded in the ledger to grant allocations/notifications; and</li> <li>• challenge the Council's judgements as to whether it is acting as agent or principal in respect of the administration of individual grant funding streams, and the accounting treatment associated with these judgements; and</li> <li>• reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have been met or not.</li> </ul>

# National Publications

	Publication/update	Key points	Page
<b>CIPFA</b>			
1	Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts	2020/21 Disclosure checklist	9
2	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts	2020/21 Code Guidance Notes	9
3	Service Reporting Code of Practice for Local Authorities 2021/22	2020/21 SeRCOP Guidance	9
4	Guidance for Head of Internal Audit Annual Opinions 2020/21	Guidance	10
5	A Guide to Local Authority and Public Sector Asset Management	Step-by-step guide	10
6	Planning to Deliver Good Value in Demand-led Services	Good practice framework	10
<b>National Audit Office</b>			
7	Local auditor reporting application	Data on local auditor reporting presented through an interactive map	11

# National Publications

	Publication/update	Key points	Page
<b>MHCLG</b>			
8	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	12
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<b>Financial Reporting Council</b>			
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<b>PSAA</b>			
11	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	PSAA Audit Quality report	15
<b>Home Office</b>			
12	Public Service Pension Schemes Guidance	Consultation on the Remedy to McCloud / Sergeant litigation	16

# 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 (Governance 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, 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>

### **7. 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

### 8. 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>

### 9. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

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

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 10. 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

### 10. 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.

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Limited

### 11. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

<https://www.psa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/>

The PSAA Press release regarding late 2019/20 opinions can be found at:

<https://www.psa.co.uk/2020/12/news-release-2019-20-audited-accounts/>

# NATIONAL PUBLICATIONS

## Home Office

### 12. Public Service Pension Schemes Guidance, September 2020

This consultation, which ended in October 2020 sets out options for how the Government will remove the discrimination against some younger pension scheme members identified in the McCloud / Sergeant judgements. These options involve providing members with a choice of which set of pension scheme benefits, those under their old scheme or the new scheme, they would like to receive for the remedy period and whether to make that choice immediately or defer it until retirement. The Government is expected to publish its response and final policy decision shortly.

<https://www.gov.uk/government/publications/public-service-pension-schemes-guidance>

# David Hoose

**Mazars**  
Nottingham

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