

Audit Progress Report

North East Lincolnshire Council

Audit and Governance Committee 20 April 2023



1. Audit Progress and Audit Planning
2. National publications

01

Section 01:

Audit Progress and Audit Planning

Audit progress – 2021/22 Audit

Purpose of this report

This report provides the Audit and Governance Committee's 20 April 2023 meeting with:

- an update on the status of the 2021/22 Audit;
- a summary of the audit planning proposals which form the basis of the formal 2022/23 Audit Strategy Memorandum (ASM). The formal ASM will be shared with the Committee when confirmed; and

It also includes, at Section 2, a summary of recent national reports and publications for your information.

2021/22 Audit

The position on the key elements of the 2021/22 audit is summarised below.

Financial Statements audit

We presented our Audit Completion Report to the Audit and Governance Committee in November 2022. In our report we highlighted a national accounting issue in relation to infrastructure assets, which could not be progressed at that time of our report until the CIPFA and Department for Levelling Up, Housing and Communities (DLUHC) had resolved the expected accounting treatment and issued relevant guidance to Councils.

The guidance was issued on 11 January 2023 and we have liaised with finance team to determine the impact on the Council's financial statements. We are satisfied that, subject to the notes to the financial statements being amended to include the disclosures required by the guidance, the Infrastructure balances and transactions are not materially misstated. We have agreed with the finance team that the approach to determining the depreciation estimate for Infrastructure assets is to be revised as part of the preparation of the 2022/23 financial statements to ensure it more closely follows the expected practices and more clearly reflects the nature of the specific assets in use. The finance team is preparing the updated statements and supporting working papers for our review.

Audit progress – 2021/22 Audit

Financial Statements audit (continued)

Since the date of the Committee's last meeting a further issue has emerged which is relevant to the 2021/22 draft financial statements. Actuaries carrying out the Pension Fund triennial valuations have informed employers that their work in updating membership and other assumptions has resulted in material changes to the 31 March 2022 valuation reports used to prepare the 2021/22 draft financial statements. Audit suppliers are liaising with the National Audit Office (NAO) and the FRC to consider the implications of this on proposed audit opinions and to agree a response. We have been instructed to not issue 2021/22 Audit Opinions until this matter has been resolved.

We will update the Committee at the April 2023 meeting on the current position and report the results of our work in our Follow-up Letter which we will issue at the conclusion of the audit.

Value for Money arrangements

We reported our interim findings in our November 2022 report to the Committee and have continued to keep our risk assessment up to date. There have been no significant changes to our assessment of the Council's arrangements and we still regard Ofsted's rating of Children's Services and the matters reported by the DfE appointed Commissioner as reflecting significant weaknesses in the Council's arrangements. The Council's financial position, including the current year financial difficulties and challenging medium term outlook, continues to be a concern. We will update our assessment on this and the other criteria covered by the value for money commentary and set out our findings and conclusions in the 2021/22 Auditor's Annual Report.

Audit Planning – 2022/23 Audit

2022/23 Audit Planning

The key points to share with the Audit and Governance Committee from the proposed ASM are summarised below and on the following pages.

Audit Responsibilities and Communications

There are no fundamental changes to our audit responsibilities and the scope of the audit. We continue to be responsible, under the National Audit Office’s (NAO) Code of Audit Practice, for the following:

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors’ rights

We report to the NAO on the consistency of the Council’s financial statements with its Whole of Government Accounts (WGA) submission.

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 UK

Audit Planning - 2022/23 Audit

Audit Responsibilities and Communications (continued)

Our main communications with the Audit and Governance Committee will continue to be:

- Audit Strategy Memorandum – this sets out the key communication points required at the audit planning stage, which are summarised in this document.
- Audit Completion Report – this sets out the key findings from our detailed audit and, amongst other things, the proposed draft audit report on the audited financial statements.
- Auditor's Annual Report – this replaces the Annual Audit Letter from 2020/21 onwards and includes our commentary on the Council's value for money arrangements. This form of reporting is a new requirement for this year. The Auditor's Annual Report is required to be issued within 3 months of the date of the audit opinion on the financial statements.

The Council continues to have £560,780 of listed debt and as such it falls under the definition of an EU Public Interest Entity. In particular there are additional requirements at both the planning and the reporting stages of the audit, culminating in the longer-form audit report we give on the financial statements.

Audit Team responsibilities

As already communicated to the Audit and Governance Committee the engagement team for 2022/23 is made up of Mark Surridge (Director and Engagement Lead) and Mike Norman (Senior Manager). Mark and Mike lead the engagement team in the previous year and will be supported by the local audit teams.

Audit Approach

The audit approach is broadly the same as in previous years. Our audit approach is designed to provide an audit that complies with all professional requirements. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

The major changes to ISA 315 are effective for our 2022/23 audit. Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in. This will build on the existing strong knowledge of the Council we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

The diagram on the following page 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. The specific dates are subject though to the timely provision of information by third parties and us being able to fully complete the audit procedures to the required quality standards. The delay in the completion of the 2022/23 audit has meant that we have needed to overlap work on audit years and be flexible in the timing of the audit stages. We are continuing to discuss the detailed year-end audit arrangements with the finance team, together with the timing of the completion stages.

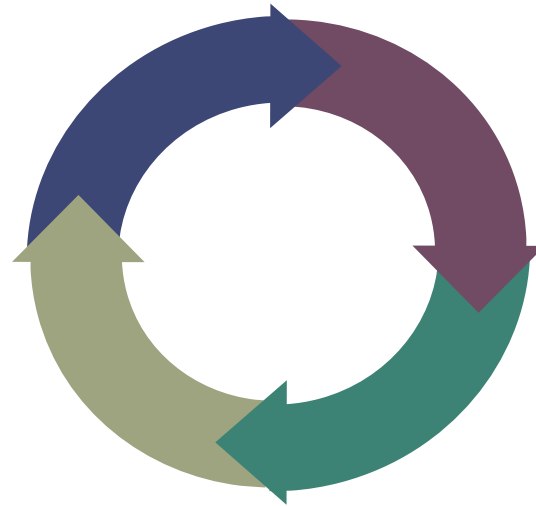
Audit Planning - 2022/23 Audit

Planning and risk assessment (March 2023)

- 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
- Risk assessment analytical procedures
- Determination of materiality

Completion (November – December 2023)*

- Final review and disclosure checklist of financial statements
- Final quality control reviews
- Agreeing content of letter of representation
- Issuing Audit Completion Report to those charged with governance
- Reviewing subsequent events
- Signing the auditor's report
- Issuing the Annual Auditor's Report



Interim (April and July 2023)*

- 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
- Initial value for money risk assessments

Fieldwork September – October 2023)*

- 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
- Reviewing assurances provided by 3rd party service organisations
- Communicating progress and issues
- Clearance meeting
- Completing Value for Money (VFM) risk assessment

* Specific dates for the audit visits being confirmed with management to accommodate audit and client staff availability during these periods.

Audit Planning - 2022/23 Audit

Audit Risks

Following the risk assessment approach we expect to frame our work around the following relevant risks to the audit of the 2022/23 financial statements. We have identified the additional audit procedures required to address these risks and will report our findings in the Audit Completion Report and our Auditor Report.

Description	Status	Comments
Management Override of Control	Significant Audit Risk (unchanged)	This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.
Property Valuation	Significant Audit Risk (unchanged)	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.
Net Pension Liability Valuation	Significant Audit Risk (unchanged)	The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.
Financial Systems changes	An Area of Focus (new for 2022/23)	The Council implemented the Unit4 finance system at the start of 2022/23, so changing the main accounting, debtors and creditors, and budgetary control systems in place. We need to update our documentation and understand the controls in these processes and carry out specific testing to confirm, amongst other things, the completeness and accuracy of the data transferred from the old systems.

Materiality

Our audit is planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Our provisional materiality assessment is again set based on a benchmark of the Comprehensive Income and Expenditure Statement total gross expenditure. We consider that the total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee. The initial materiality thresholds for 2022/23 are summarized below:

Overall Materiality – 32% of Gross Expenditure - £6.6m (£5.8m 2021/22)

Performance Materiality – 80% of Overall Materiality - £5.2m (£4.7m in 2021/22)

Trivial threshold for errors to be reported to the Audit and Governance Committee – 3% of Overall Materiality - £197k (£177k in 2021/22)

Audit Planning - 2022/23 Audit

Value for Money

The NAO has confirmed there are no significant changes to the Value for Money reporting requirements for 2022/23.

Under the Code, the key output of our work on VFM arrangements continues to be a commentary on those arrangements within the Auditor's Annual Report.

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

The work falls into three primary phases:

- Planning and risk assessment – obtaining an understanding of the Council's arrangements for each specified reporting criteria.
- 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 in the Auditor's Annual Report.

Our initial risk assessment work indicates that the unchanged OFSTED rating for Children's Services continues to reflect significant weaknesses in the Council's arrangements and we again expect this to feature in our commentary in our Auditor's Annual Report

02

Section 02:

National publications

National publications

	Publication/update	Key points
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.
Department for Levelling Up, Housing and Communities		
4	Department consultation – public inspection of Category 1 authority accounts 2022/23	The Department for Levelling Up, Housing & Communities (DLUHC) is requesting views on the current deadline for category 1 authorities to make their draft accounts available for public inspection.
5	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		
6	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).
7	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

Department for Levelling Up, Housing and Communities

4. 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 is minded for this deadline to remain in place, but is interested in hearing stakeholders views via a short consultation.

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

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

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.

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

6. 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

7. 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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