Audit Progress Report

North East Lincolnshire Council

Audit and Governance Committee 14 September 2023

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1. 2021/22 and 2022/23 Audits - Updates
2. Appendices

01

Section 01:

2021/22 and 2022/23 Audits - Updates

Audit progress – 2021/22 Audit

This report provides the Audit and Governance Committee's 14 September 2023 meeting with:

- an update on the status of the 2021/22 Audit and its completion;
- An update on the 2022/23 Audit Strategy.

Audit Opinion on the 2021/22 Financial Statements

We presented our Audit Completion Report to the Audit and Governance Committee in November 2022. In our report we identified the status of the audit, the key findings to date and the remaining work. We committed to keeping the Committee informed on progress and the outcome of the work and have provided the Committee with update reports. There were two nation issues which held up the completion of the audit

- **Infrastructure Assets - i**n our November 2022 report to the Committee we highlighted a national accounting issue in relation to infrastructure assets, which could not be progressed at that time of our report until 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. The changes to the notes to the financial statements, and the estimated unadjusted non-material audit differences, are summarised at Appendix 1. We have also 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.

- **2022 Triennial Pension Fund Valuation -** The 2022 Triennial Pension Fund valuations, which were reported in March 2023, showed material movements in the estimated 31/3/2022 net liability valuation, largely due to updated membership details. The Regulators and audit suppliers confirmed in May 2023 the way forward to address this. As part of this:

  - Councils have been required to obtain updated IAS19 valuation reports and amend the draft financial statements for the new figures. This additional work was completed in August 2023 and the adjustments required to the draft financial statements agreed with Management. These adjustments are summarised at Appendix 1

  - Pension Fund auditors have needed to complete testing on the reliability and accuracy of the updated pension fund membership data used as part of the 2022 Triennial valuation. The results from this work, confirming the updated pension fund membership data can be relied upon are expected in early September 2023.

Audit progress – 2021/22 Audit

Audit Opinion on the 2021/22 Financial Statements (continued)

The updated Financial Statements are to presented to the Committee at its 14 September 2023 meeting for approval and we expect to an unqualified Audit Opinion shortly afterwards. We will report any additional matters in our normal 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 Progress – 2022/23 Audit

2022/23 Audit Planning

At the April 2023 meeting of the Committee we shared a summary of the key elements of our Audit Strategy for 2022/23, including:

- Our audit responsibilities and planned communications with the Committee
- The key members of the audit team and their responsibilities
- The planned audit approach and the timing of the key stages of the audit
- The significant audit risks identified and our planned response
- The expected materiality thresholds to be applied in carrying out our audit work and evaluating any errors or misstatements identified
- The approach to completing our assessment of the Council's VFM arrangements and the outcome from the initial risk assessment.

The full Audit Strategy Memorandum is attached at Appendix 2. There are no significant changes to the summary we reported in April 2023 and no additional matters that we need to highlight to the Committee.

The current position on the 2022/23 audit is as follows:

Accounts Audit Progress

The 2022/23 Audit is in progress, with the main audit visit scheduled to start 11 September 2023 and we plan to present our Audit Completion Report to the Committee's November 2023 meeting. There are no significant findings from the audit work completed to date that we need to highlight for the Committee's attention at this stage.

Value for Money Arrangements

No additional significant weaknesses in the Council's arrangements have been identified. We have continued to take into account the views of Regulators and monitor the Council's financial position and discuss with management the actions being taken to address the Council's current year and medium term financial position. We will keep our assessment up to date and report any additional matters through our Audit Completion Report and Auditor's Annual Report.

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Section 02:

Appendices

Appendix 1 - 2021/22 Audit – Updated Findings

We reported the findings from our audit of the financial statements to the Audit and Governance Committee in our November 2022 Audit Completion Report. The Committee agreed that any further matters could be delegated to the S.151 Officer, with any subsequent changes reported back to the Committee. We have summarised in this Appendix the further matters that need to be brought to the Committee's attention.

Net Pension Liability - Unadjusted Audit Differences

We reported in our November 2022 Audit Completion Report we were waiting for the final assurances from the auditor of the East Riding Pension Fund. The Pension Fund auditor reported to us that the investment asset values in the Pension Fund accounts were under-stated by £39.1m. The Council's share of the Pension Fund assets at the year-end (which was the value used by the Actuary to prepare the employers' IAS19 valuation reports) was around 9% of the total which indicates that the net liability disclosed in the Council's accounts are over-stated by £3.519m, which is not material to our opinion. Management is not proposing on the grounds of materiality to obtain an updated IAS19 valuation report or amend the accounts for these specific extrapolated differences.

Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive I&E Statement £000s	Comments
Dr Net Pension Liability		3,519			The audit differences reflect an extrapolation of the reported understatement of the Pension Fund investment assets.
Cr Unusable Reserves (Pension Reserve)			(3,519)		

Appendix 1 - 2021/22 Audit – Updated Findings (continued)

Infrastructure Assets – Adjusted disclosures and Unadjusted Audit Differences

In Spring 2022 CIPFA identified a potential issue affecting most, if not all, local authorities with highways responsibilities. The issue identified was that there was insufficiently detailed information available to allow local authorities to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components. CIPFA committed to find a solution that would meet the requirements of the Code. As CIPFA was unable to resolve this matter it sought instead to identify a temporary solution through amendments to the financial reporting framework. To this end:

- CIPFA issued an Update to the Code of Practice on Local Authority Accounting (the Code Update) in November 2022, with a supporting Guidance Bulletin issued January 2023; and
- DHLUC issued in late December 2022 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (SI 1232/2022) (the Amendment Regulations).

Management has reviewed its accounting arrangements and the draft Accounts in the light if the Code Update and the Amendment Regulations. Management has adopted the flexibilities available through the new guidance and amended its disclosures at Note 14 to explain the accounting approach followed.

The Council's accounting approach to determining the carrying value of Infrastructure assets is unlikely to materially misstate the financial statements. We have summarised below the estimated misstatements. Management is not proposing to adjust the draft accounts for these differences on the grounds of materiality.

Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive I&E Statement £000s	Comments
Dr PPE - Infrastructure	3,000				The audit differences reflect an estimate of the differences in the Council's balance sheet arising from its approach to accounting for Infrastructure assets.
Cr Unusable Reserves (Capital Adjustment Account)			(3,000)		

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Appendix 1 - 2021/22 Audit – Updated Findings (continued)

2022 Triennial Pension Fund Valuation - Adjusted Audit Differences

The draft accounts have been adjusted to take account of the material changes arising from the 2022 Triennial Pension Fund valuation reported in March 2023. This information was not available when the draft accounts were published.

Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive I&E Statement £000s	Comments
Dr Pension net liability		5,193			These are a summary of the changes made to the primary financial statements following the receipt of the updated IAS19 valuation report which takes account of the changes in the Actuary's estimates following the 2022 Triennial valuation of the Pension Fund.
Cr Unusable Reserves (Pension Reserve)	5,193				
Dr Other Comprehensive Income and Expenditure – Actuarial (gains)/losses on Pension Liabilities				5,193	

Appendix 2 – Audit Strategy Memorandum 2022/23

DRAFT Audit Strategy Memorandum

North East Lincolnshire Council

Year ending 31 March 2023

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Appendix A – Key communication points

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Audit and Governance Committee Members
North East Lincolnshire Council
Municipal Offices
Town Hall Square
Grimsby, North East Lincolnshire
DN31 1HU

Mazars LLP
Two Chamberlain Square
Birmingham
B3 3AX

August 2023

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for North East Lincolnshire Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing North East Lincolnshire Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

The completion of the 2021/22 audit has been delayed due to national issues regarding the accounting requirements for Infrastructure Assets and Pensions. These matters are expected to be resolved very soon. This delay has impacted the timing of the 2022/23 audit and we are working with management to recover any slippage and complete the current year audit within the revised timeline.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at mark.surridge@mazars.co.uk.

Yours faithfully

Mark Surridge

Mazars LLP

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Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of North East Lincolnshire Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

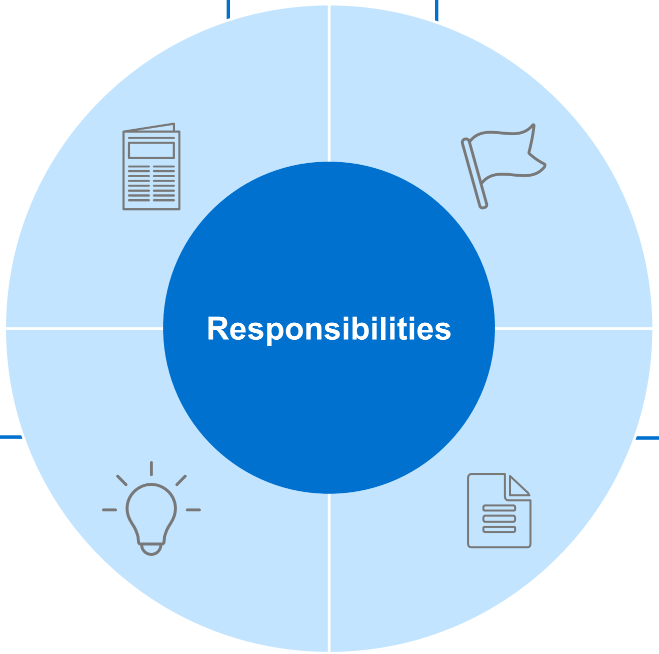
Audit opinion

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.

The Chief Finance Officer is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

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. We discuss our approach to Value for Money work further in section 5 of this report.



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 [including Internal audit 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 United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service will continue to be led by the following.

Who	Role	Email
Mark Surridge Director and Key Audit Partner	Engagement Lead	Mark.Surridge@mazars.co.uk
Michael Norman Senior Manager	Engagement Manager	Michael.Norman@mazars.co.uk
Jayshree Dadheech Assistant Manager	Engagement Senior	Jayshree.Dadheech@mazars.co.uk

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities 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.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be 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. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The completion of the 2021/22 audit has been delayed due to national issues regarding the accounting requirements for Infrastructure Assets and Pensions. These matters are expected to be resolved very soon. This delay has impacted the timing of the 2022/23 audit and we are working with management to recover any slippage and complete the current year audit within the revised timeline.

The diagram on the next page outlines the procedures we perform at the different stages of the audit. . The specific dates are subject though as always to:

- the timely provision of information by the Council and any third parties (for example the Pension Fund auditor);
- No significant national accounting issue emerging which require additional significant audit work; and
- us being able to fully complete the audit procedures to the required quality standards.

Requirements of revised ISA 315

The International Audit and Assurance Standards Board (IAASB) approved major changes to ISA 315 in September 2019. The changes are effective for audits of financial statements for periods beginning on or after 15 December 2022. The revisions intend to drive better quality and more consistent risk assessments, as well as the exercising of professional scepticism. We summarise the implications of the revised standard in Appendix B.

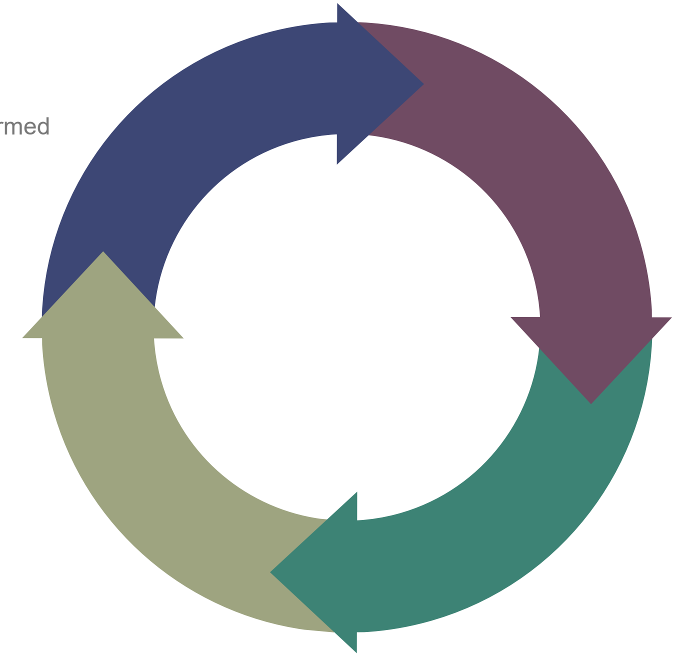
3. Audit scope, approach and timeline

Planning and Risk Assessment – February 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

Interim – March/April 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Carrying out our VFM risk assessment



Completion – November/December 2023

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

Fieldwork –September/October 2023

- Completing the remaining systems walkthroughs
- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Reviewing responses from third parties
- Communicating progress and issues
- Clearance meeting
- Updating our VFM risk assessment

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson *Actuary for East Riding Pension Fund*	PWC *Consulting actuary appointed by NAO*
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	External Valuer *Equans Limited*	We may seek to engage our Internal Valuer to support our audit testing.
Financial instrument disclosures	Link Asset Services *Treasury management advisors*	Not applicable

Service organisations

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. We have not identified any service organisations which are relevant to the Council.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

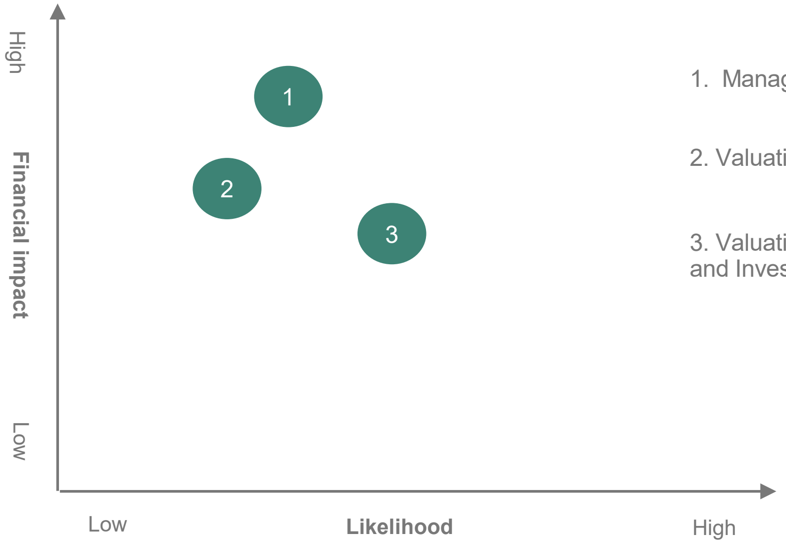
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Areas of audit focus

Where we identify a material item of account or aspect of financial reporting that represents a challenge to the Council, we will highlight to the Audit and Governance Committee as one where will focus our audit attention.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



1. Management override of controls
2. Valuation of the net defined benefit liability
3. Valuation of Land and Buildings, Surplus Assets and Investment Properties

Key: Significant risk | Enhanced risk / significant management judgement

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of the net defined benefit liability** The net defined benefit liability relating to the Local Government Pension Scheme represents a significant balance on the Council's balance sheet. The East Riding Pension Fund, as the local scheme administrator, uses an actuary to provide an annual valuation of these assets and 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. The 2022 Triennial Valuation of the Fund, and changes in the Actuaries' assumptions in 2022/23 have seen significant movements in the Pension liability valuation, with many employers IAS19 reports showing a net Asset position. The accounting requirements in these circumstances are complicated and require careful judgement. Relevant Account Balances (taken from the 2021/22 final financial statements) are: - Present value of the defined obligation - £(737.7)m - Fair value of plan assets - £560.9m - Net defined benefit liability - £(176.8)m	○	●	●	We plan to address the risk by: • critically assessing the competency, objectivity and independence of the Actuary engaged by the East Riding Pension Fund; • liaising with the auditors of the East Riding Pension Fund to gain assurance over the design and implementation of controls in place at the Pension Fund. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Fund Actuary (as applicable), and the key assumptions included within the valuations. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; • agreeing the data in the IAS 19 valuation report provided by the Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and • Reviewing and challenging the Council's assessment, under the requirements of IFRIC14, of its Pension surplus and confirming that the accounting treatment is appropriate and reasonable.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of Land and Buildings, Surplus Assets and Investment Properties** 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. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area. This risk covers (figures have been taken from the 2021/22 financial statements): • Land & Buildings - £83.9m • Surplus Assets - £3.3m • Investment Properties - £51.5m	○	●	●	We plan to address this risk by: • critically assessing the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • considering whether the overall revaluation methodologies used by the Council's valuer are in line with industry practice, the CIPFA code of practice and the Council's accounting policies; • assessing whether valuation movements are in line with market expectations by considering valuation trends; • critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2022/23 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

4. Significant risks and other key judgement areas

Areas of audit focus

Description	Planned response
IT system change The Council has changed its core financial accounting systems. The Council needs to have had effective arrangements in place for managing the changeover and completely and accurately transferring information between the old and new systems.	We will review the steps taken by management to ensure the changeover was effective and test the reconciliations carried out on the systems' data transfer. We will engage our IT audit specialists to support the local audit team in this work.

05

Section 05:

Value for money

6. Value for Money

The framework for 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.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains 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 Council.

5. Value for money arrangements

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.
Although we have not fully completed our planning and risk assessment work, we have not yet identified any risks but we will report any identified risks on completion of our planning and risk identification work.

Our work to follow-up on previous recommendations

As part of our 2020/21 audit, we identified significant weaknesses in the Council's arrangements, and we confirmed during 2021/22 that there had been no changes in the circumstances underpinning the judgement. The table below sets out the significant weaknesses identified, our previous recommendations and the work we intend to carry out as part of our 2022/23 audit.

Previously identified significant weakness in arrangements – brought forward from 2020/21	Relevant reporting criteria	Our 2020/21 recommendations	Planned procedures for 2022/23
Children's Services Ofsted is the Office for Standards in Education, Children's Services and Skills. It inspects and regulates services that care for children and young people. The Authority's children's services were last inspected in 2017, when it was rated "Good". Ofsted has carried out focused visits in the intervening period with the most recent letter being dated in June 2021, but without changing the overall rating. In October 2021, Ofsted commenced an inspection into children's services, publishing its report on 26 November 2021. The overall effectiveness of children's services has been graded "Inadequate", citing weaknesses in assessment, planning and decision-making. The matters identified by Ofsted are relevant to the financial year ending 31 March 2021 and, in our view, indicate a significant weakness in the Authority's arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) and for Improving Economy, Efficiency and Effectiveness (how the body uses information about its costs and performance to improve the way it manages and delivers its services) reporting	Improving Economy, Efficiency and Effectiveness	In order to ensure systems, processes and training are in place to manage the risks relating to the safety and welfare of service users, the Authority must ensure it embeds and sustains the action plans that it has put in place to address the issues identified by Ofsted. In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for service users and sustain the progress made to-date in implementing the actions to address the issues raised by Ofsted.	We will continue to critically evaluate the steps taken to respond to the Ofsted assessment and take into account further assessments of progress by the regulator.

06

Section 06:

Fees for audit and other services

7. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2021/22 expected and planned 2022/23 fees are set out below. The 2021/22 audit has not been finalised yet, with the completion delayed due to the need to carry out further audit work in relation to the Infrastructure and Pensions financial reporting requirements. The final fee, including any identified fee variations for work outside of the set scale audit fee, is subject to agreement with management and then approval by PSAA.

PSAA has notified clients of increases in the published 2022/23 scale audit fees to reflect changes in the work required since the scale fees were originally set. We have also identified likely fee variations required for the year, although these are subject to agreement with management and approval by PSAA once the audit has been finalised.

Area of work	Estimated 2021/22 Fee	Estimated 2022/23 Fee
Scale Audit fee	£91,866	£105,765
Fee variations:		
Additional work in response to regulatory recommendations, including audit work on defined benefit liability schemes and the valuation of Council Dwellings, land and buildings and Investment Properties	£11,270	n/a – included in updated scale fee
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern, ISA (UK) 315 (Revised 2019) Revised auditing standard on Identifying and assessing the risks of material misstatement	TBC	TBC
Other additional costs - Infrastructure Assets – clarification of the accounting requirements - Pensions – impact of triennial valuation	TBC	n/a
Additional work arising from changes in the Code of Audit Practice and VFM Reporting	£10,000	£10,000

6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we expect to be separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23 Indicative Fee
Assurance services – Housing Benefits	£9,900
Assurance Services – Teachers Pensions	£3,300

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and misstatements

9. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	6,500
Performance materiality	5,200
Specific materiality – Officers' Remuneration (note 35 of the Statement of Accounts)	5
Trivial threshold for errors to be reported to the Audit and Governance Committee	195

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

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.

9. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLB) for borrowing which are non-complex arrangements.

Based on the 2021/22 audited financial statements we anticipate the overall materiality for the year ended 31 March 2023 to be in the region of £6.5m.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our fourth year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality at 80% of our overall materiality being £5.2m.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £195,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit and Governance Committee

The following three types of audit differences will be presented to the Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

Appendices

A

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit and Governance Committee, Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Governance Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	Audit Completion Report and The Audit and Governance Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

Implications for the audit

Our risk assessment procedures will be more granular than those carried out under the previous standard by your previous auditor, and we will be seeking sufficient information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in.

In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we will need to ensure we have a good understanding of the Council's IT environment. We will keep this under review as part of our planning and interim audits. We do not plan to test IT general controls as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

Mark Surridge, Director – Public Services

Mazars
First Floor

Two Chamberlain Square

Birmingham, B3 3AX

Contact

Mazars

Partner: Mark Surridge

Email: mark.surridge@mazars.co.uk

Manager: Mike Norman

Email: michael.norman@mazars.co.uk

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.

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