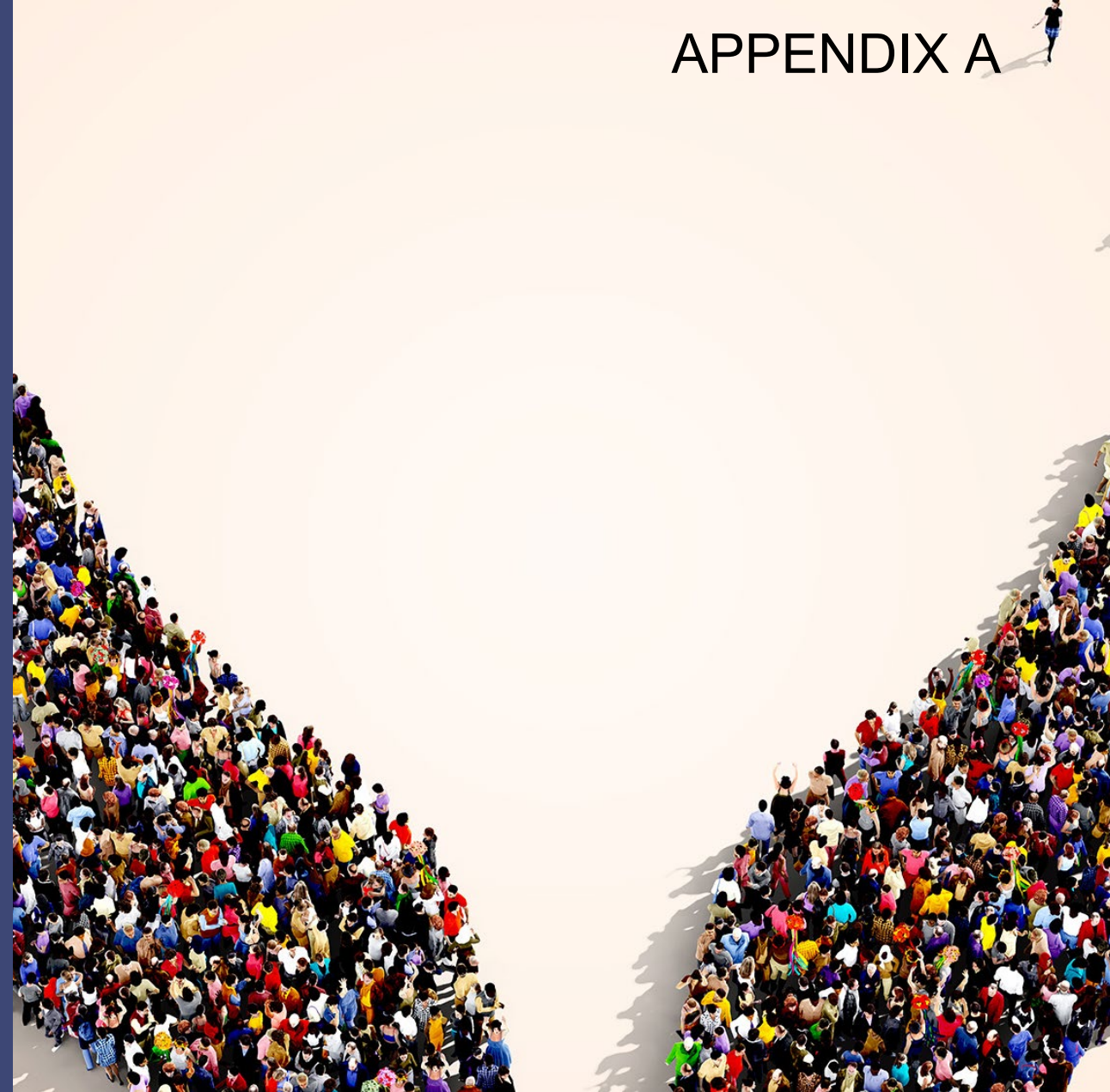


# Audit Progress Report

Selby District Council

Audit & Governance Committee July 2022



1. Audit Progress
2. National publications

# 01

## Section 01: **Audit Progress**

# Audit progress

## Purpose of this report

This report provides the Audit & Governance Committee with an update on progress in delivering our responsibilities as your external auditors. It includes:

- an update on the 2020/21 audit;
- an update on the 2021/22 audit planning processes; and
- and also includes, at Section 2, a summary of recent national reports and publications for your information..

## 2020/21 audit

In line with the national position we have not yet issued the Audit Certificate for 2020/21. The National Audit Office (NAO) are still in the process of drafting group instructions, which determine the testing we are required to undertake on the Council's Whole of Government Accounts (WGA) return. Once the NAO has issued group instructions, we will liaise with officers to complete the required testing. Following completion of this work we will issue our Audit Certificate to formally close the 2020/21 audit.

We have completed our work in respect of the 2020/21 Housing Benefit Subsidy Return and issued our Reporting Accountants Report to DWP on 19 May 2022.

## 2021/22 audit

We presented our draft Audit Strategy Memorandum to the April Audit & Governance Committee, setting out the risks we had identified in respect of the 2021/22 financial statements. We substantially completed our initial planning work in April 2022 and as a result there has been no change to our risk assessment since issuing our Audit Strategy Memorandum.

Our fieldwork in respect of the 2021/22 financial statements audit is due to commence in mid August. We plan to report the findings from our audit to the meeting of the Audit & Governance Committee in September/October. We have held early fieldwork planning discussions with management to ensure a smooth audit process and remain in regular contact with the finance team.

# 02

Section 02:

**National publications**

# National publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
1	CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets	The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets.
2	Updated statement on the deferral of IFRS 16 leases	Following its emergency consultation on proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement.
3	Local Authority Controlled Companies: a good practice guide	A good practice guide due to be published in May 2022; highlighted for potential interest to Committee Members, noting the full guide needs to be purchased.
<b>Department for Levelling Up, Housing and Communities</b>		
4	Creation of the Audit Reporting and Governance Authority	A new regulator, the Audit Reporting and Governance Authority (ARGA), to be established as the system leader for local audit within a new, simplified local audit framework.
<b>National Audit Office (NAO)</b>		
5	Audit and Assurance Committee effectiveness tool	NAO's effectiveness tool provides a way for ARACs to assess their effectiveness
<b>Public Sector Audit Appointments Ltd</b>		
6	Annual Quality Monitoring Report 2019/20	This covers the work of local auditors appointed by PSAA for the 2019/20 financial year. The report provides information from PSAA's quality monitoring arrangements throughout the year, survey results and findings from professional regulation and contractual compliance. The report details how the Financial Reporting Council reviewed four Mazars financial statements audits and all were assessed as meeting the required standard.

# NATIONAL PUBLICATIONS

## CIPFA

### 1. CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets – May 2022

The issue of accounting for infrastructure assets is a technical accounting one, and arises principally because of information availability relating to these assets.

Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns have been raised that some authorities are not applying component accounting requirements appropriately. The issue raised is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation. Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at 'current value'. The valuation process for these assets was deemed to be too costly and, therefore, infrastructure assets are held in local authority balance sheets at depreciated historical cost.

Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. An urgent consultation on these proposals closed on 14 June 2022.

The temporary proposals address the above issue regarding the derecognition of parts of local authority infrastructure assets as they are replaced. CIPFA LASAAC and CIPFA established a Task and Finish Group to find a solution to this issue and consider the outcome of any proposed changes to the code. Following advice from the Task and Finish Group, CIPFA LASAAC has now issued temporary proposals for changes to the code relating to how these issues are reported. They include:

- confirming the accounting consequences of derecognition, e.g. that the effect on the carrying amount is nil (on a presumption that the replaced parts are fully depreciated);
- temporarily adapting the code to remove the reporting requirements for gross historical cost and accumulated depreciation
- providing extra guidance on how depreciation may be applied for infrastructure assets
- CIPFA LASAAC will consult on a longer-term solution later in the year.

<https://www.cipfa.org/policy-and-guidance/urgent-task-and-finish-group-local-authority-infrastructure-assets>

# NATIONAL PUBLICATIONS

## CIPFA

### 2. Updated statement on the deferral of IFRS 16 leases – April 2022

Following its emergency consultation on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement. This preliminary decision was subsequently considered by the government's Financial Reporting Advisory Board (FRAB). FRAB advised CIPFA LASAAC that it agreed with the deferral of IFRS 16 Leases until 1 April 2024. FRAB also advised CIPFA LASAAC that the Code had to allow and should encourage local authorities to adopt the standard before this date should they wish to.

CIPFA LASAAC has therefore followed its preliminary decision with its formal decision: to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023. CIPFA LASAAC would note that the 2022/23 Code has not yet completed its due process so local authorities should follow the CIPFA LASAAC pages of the website for further updates. Formal due process for the Code by LASAAC and by CIPFA's Public Financial Management Board is anticipated to be complete by the third week in April.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/updated-statement-on-the-deferral-of-ifrs-16-leases>

### 3. CIPFA Local Authority Controlled Companies: a good practice guide, May 2022

In recent years, the potential risk associated with local authority trading companies and joint ventures has increased. Nothing is risk free, but it is important to learn lessons from others and access support.

This guide aims to assist local authorities by setting out and highlighting existing best practice. It focuses on identifying organisational goals, the process to find the right option to achieve that goal and how to structure the organisation for success.

<https://www.cipfa.org/policy-and-guidance/publications//local-authority-owned-companies-a-good-practice-guide>



# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 4. Creation of the Audit Reporting and Governance Authority – May 2022

Plans to ensure councils and local bodies are delivering value for money for taxpayers, strengthening council finances and reducing risk to public funds have been published by the government.

The government consultation response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA's establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022. This will be led by Neil Harris, who joins as the FRC's first Director of Local Audit to start up a dedicated local audit unit.

The Department for Levelling Up, Housing and Communities has been acting as interim system leader since July 2021, when it established and took the chair of the Liaison Committee of senior local audit stakeholders.

Work has already begun to address the challenges facing local audit with the government announcing a series of measures to improve local audit delays in December 2021.

The consultation response also announces plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.

The announcement comes as government today set out its wider plans to revamp the UK's corporate reporting and audit regime through a new regulator, greater accountability for big business and by addressing the dominance of the Big Four audit firms.

The government continues to work closely with stakeholders, including local bodies and audit firms, to refine proposals for implementing our commitments around system leadership, as well the range of other commitments we have made in response to the Redmond Review.

<https://www.gov.uk/government/news/greater-transparency-and-value-for-money-for-council-finance-system>

# NATIONAL PUBLICATIONS

## National Audit Office

### 5. Audit and Risk Assurance Committee effectiveness tool – May 2022

Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm's-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, NAO's effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The effectiveness tool is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

<https://www.nao.org.uk/report/audit-and-risk-assurance-committee-effectiveness-tool/>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 6. Annual Quality Monitoring Report 2019/20 – April 2022

This covers the work of local auditors appointed by PSAA for the 2019/20 financial year, which was undertaken during a difficult time for all concerned. The systemic issues that were highlighted in Sir Tony Redmond's Review continued and were compounded by the pandemic.

In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting.

In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function.

The next year is likely to continue to be very challenging for all involved in local audit, but DLUHC (formerly MHCLG) will take forward and refine its proposals in its role as interim systems leader until ARGA is created, and the FRC will create a local audit unit in shadow form.

The problems that Sir Tony Redmond reported on continue to impact significantly on the timely completion of local government audits. Only 45% of audit opinions were completed by the publishing date of 30 November 2020, compared with 58% in the previous year. This has now fallen even further with only 9% for 2020/21 audits of financial statement opinions completed (noting the reversion to a 30 September publishing date). Delayed audit opinions have a real public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. It is imperative that the whole system works together to restore timely completion of audits in order to rebuild public confidence and trust, especially as the lack of a statutory deadline for the audit opinion means that co-operation is essential to make the system work as the public has the right to expect it to.

<https://www.psa.co.uk/managing-audit-quality/annual-audit-quality-reports-from-2018-19/annual-reports/audit-quality-monitoring-report-2019-20/>

# Contact

## Mazars

Partner: Mark Kirkham

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

Manager: Abi Medic

Email: [abi.medic@mazars.co.uk](mailto:abi.medic@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.

\*where permitted under applicable country laws.

**[www.mazars.com](http://www.mazars.com)**

# Follow us:

## LinkedIn:

[www.linkedin.com/company/Mazars](http://www.linkedin.com/company/Mazars)

## Twitter:

[www.twitter.com/MazarsGroup](http://www.twitter.com/MazarsGroup)

## Facebook:

[www.facebook.com/MazarsGroup](http://www.facebook.com/MazarsGroup)

## Instagram:

[www.instagram.com/MazarsGroup](http://www.instagram.com/MazarsGroup)

## WeChat:

ID: Mazars