

# External Audit Progress Report (DRAFT)

Cheshire East Council

Audit and Governance Committee

November 2022



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# 01

Section 01:

**Audit progress**

# Audit Progress

## Purpose of this report

This report provides Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors and also includes, at Section 2, for your information, a summary of recent national reports and publications.

## Audit progress

### Audit of the 2020/21 Statement of Accounts

Committee members will recall, from previous external audit progress reports to this Committee, the ongoing accounting issue in relation to infrastructure assets. CIPFA had highlighted that there were differences nationally in the way councils have been accounting for infrastructure assets and compliance with the requirements of the Code of Practice on Local Authority Accounting (the Code). The value of the Council's Infrastructure Assets is £425m and it is likely therefore that the impact of any aspects of the Council's accounting that may not be compliant with the Code (as currently drafted), would be material.

CIPFA established a Task and Finish Group to consider this matter further and to identify a potential solution including a potentially a change to the Code. Consultation took place in the summer of 2022 but CIPFA was not able to agree its proposed accounting solution. To unlock the situation, the Government consulted, in November 2022, on an optional temporary Statutory Override to allow councils to prepare accounts that are materially correct. The indicative date when this Statutory Instrument could take effect is 25 December 2022.

Once the statutory override is in place, we will work with Management to understand the impact on the Council's accounts and to undertake the required audit work as soon as possible in the new calendar year.

### 2020/21 Whole of Government Accounts (WGA) work

Our work in relation to whole of the government accounts (WGA) for 2020/21 remains outstanding. We will complete this once the audit of the financial statements can be concluded (see comments above).

### 2020/21 Value for Money work

We plan to complete and report our Value for Money (VFM) arrangements work for 2020/21 at the same time that we conclude our annual accounts work

### Audit of the 2021/22 Statement of Accounts

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. As with 2020/21, we await the resolution of the accounting for infrastructure assets issue highlighted above. In addition to this national issue (which is outside of the Council's and our control), at the time of preparing this report the following limited areas of our audit remain outstanding (see next slide).

# Audit Progress

## Audit of the 2021/22 Statement of Accounts (continued)

Audit area	Description of the outstanding matter
PPE and investment properties	Subsequent audit queries in relation to evidences provided in support of the valuation of a small number of sampled assets.
Journals	Review of information provided to demonstrate completeness of the general ledger listing.
Operating expenditure (including cut off)	Review of information provided in support of the remaining items of operating expenditure (including cut off) subject to sample testing.
Exit Packages	We are awaiting supporting information for one item selected for sample testing.
Leases	Subsequent audit queries for one lease item subject to sample testing.
IT General Control testing	We are awaiting information on number of IT general control areas.
Group accounts	Review of information provided in relation to support for payroll samples with regards ANSA Environmental Services Ltd testing.

### 2021/22 Value for Money work

We plan to complete and report our VFM arrangements work for 2021/22 shortly after providing our audit opinion on the 2021/22 Accounts (noting that the National Audit Office requires us to report our VFM work within three months of the audit report on the financial statements).

# 02

Section 02:

**National publications**

# National publications

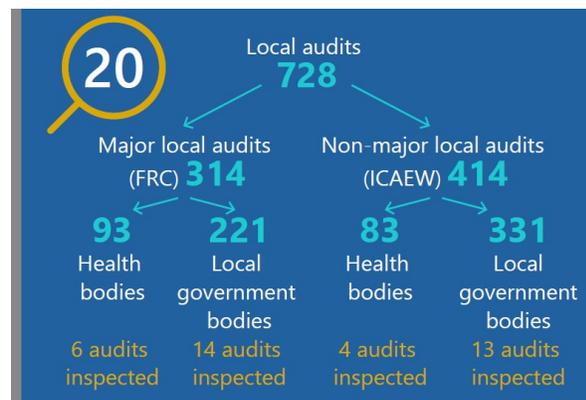
	Publication/update	Key points
<b>Financial Reporting Council (FRC)</b>		
1	Major Local Audits	Summary of Audit Quality Inspection report 2022
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
2	CIPFA/LASAAC Code Of Practice On Local Authority Accounting In The United Kingdom 2022/23	Code of Practice for 2022/23 financial statements
<b>Department for Levelling Up, Housing and Communities</b>		
3	Guidance on flexible use of capital receipts	Updated guidance on the type of projects that qualify for the capital receipts flexibility programme 2022-2025
4	Better Care Fund planning requirements 2022-23	Planning requirements for local authorities for the BCF 2022/23 year
<b>National Audit Office (NAO)</b>		
5	Improving government data: A guide for senior leaders	A good practice insight guide for senior leadership
<b>Public Sector Audit Appointments Ltd</b>		
6	Consultation on 2022/23 scale of audit fees	Consultation document

# Financial Reporting Council's report on local audit quality

## 1. FRC Major Local Audit Inspection Report - October 2022

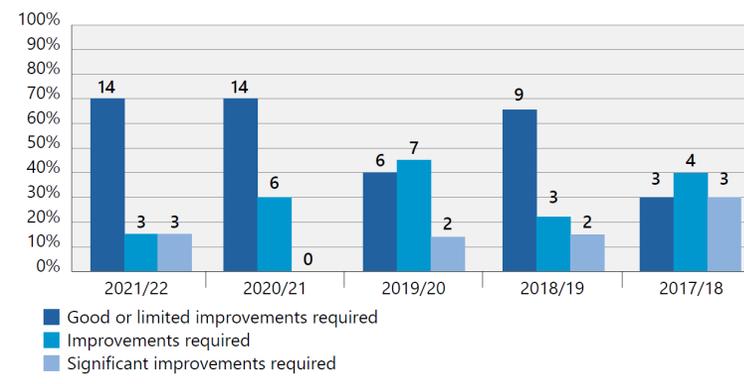
The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
<b>Total</b>	<b>314</b>		<b>20</b>



Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

All financial statement reviews – for the firms inspected



For Mazars, the FRC found that all 3 2021.22 files reviewed met the expected standards.

This was the second successive year of 100% compliance for Mazars.

Whilst the sample size is small and focused on the higher risk audits, these strong outcomes reflect the investment we have made in people, technical expertise, specialists (such as building an in-house valuation team) and strengthening our audit methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

# NATIONAL PUBLICATIONS

## CIPFA

### 2. CIPFA/LASAAC Code Of Practice On Local Authority Accounting In The United Kingdom 2022/23, July 2022

Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2022/23 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2022.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. The Code applies to local government organisations across the UK including local authorities, police bodies, fire services and other local public service bodies.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements. Changes include:

- clarifying and expanding the applicability of the Code to Welsh authorities and bodies including corporate joint committees
- amendments to clarify the treatment of social benefits
- provisions which allow local authorities to account for leases in accordance with IAS 17, while also offering the option for local authorities to choose to adopt IFRS 16 on a voluntary basis. Where the latter option is taken, service concession arrangement liabilities must also be measured in accordance with the measurement requirements of IFRS 16.

The Code sets out the relevant requirements on local authority accounting including material developed as a result of an exceptional consultation which explored options which might help alleviate pressures on the timetable for publication and audit of local authority financial statements. However, preparers should be aware that further consultation has been undertaken in relation to accounting for infrastructure assets, and this may result in amendments and updates being made to this edition of the Code and potentially other earlier editions of the Code.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202223-online>

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 3. Guidance on flexible use of capital receipts, August 2022

This is an updated direction and statutory guidance to extend the freedom for local authorities to use eligible capital receipts to fund the revenue costs of projects that deliver ongoing savings or improved efficiency. This direction revokes and replaces the direction of the same name issued on 4 April 2022.

Capital receipts are the money councils receive from asset sales, the use of which is normally restricted to funding other capital expenditure or paying off debt. The receipts cannot usually be used to fund revenue costs. The direction introduces a new restriction that authorities may not use the flexibility to fund discretionary redundancy payments, i.e. those not necessarily incurred under statute. This does not affect other types of severance payments and, to be clear, does not restrict, including pension strain costs, which may still be qualifying expenditure.

The direction allows authorities to use the proceeds from asset sales to fund the revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services. This is an extension of the flexibility that has been in place since 2016, and will allow this freedom to continue to 2024/25 to help authorities plan for the long-term.

This direction clarifies that the capital receipts obtained must be disposals by the local authority outside the “group” structure.

As introduced in the direction issued on 4 April 2022, this direction includes the requirement to submit the planned use of the flexibility in advance of use for each financial year. This condition can be met by sending the authority’s own strategy documents provided they contain the detail asked for in the direction. This is not an approval process, the information must be sent to ensure transparency and allow proper monitoring by central government.

<https://www.gov.uk/government/publications/final-guidance-on-flexible-use-of-capital-receipts>

### 4. Better Care Fund planning requirements 2022-23, July 2022

The Better Care Fund (BCF) planning requirements set out details of the requirements that BCF plans must meet. They apply to both integrated care boards and local authorities, and they are published jointly with the Local Government Association.

<https://www.england.nhs.uk/publication/better-care-fund-planning-requirements-2022-23/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 5. Improving government data: A guide for senior leaders, July 2022

This guide is for senior leaders responsible for delivering government services. The NAO's aim is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past.

The guide focuses on data to support the operational delivery of public services, but the NAO intends that much of their guide will also be relevant to data for decision-making and to improve performance.

The guide discusses overcoming barriers in data sharing, data quality, data standards, resourcing, access to raw data and APIs (application programming interfaces), creating cross-government data sets for multiple users, data analytics.

[Improving government data: A guide for senior leaders - National Audit Office \(NAO\) insight](#)

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 6. Consultation on 2022/23 scale of audit fees, August 2022

PSAA is consulting on the fee scale for 2022/23 audits. This is the final fee scale under PSAA's current audit contracts, which cover audits of the financial statements of opted-in bodies for the five-year period 2018/19 to 2022/23. Audit work under the proposed 2022/23 fee scale will largely be undertaken from autumn 2023 onwards.

This fee scale consultation is separate from the procurement exercise PSAA is currently undertaking for audit contracts that will apply for the next five years, for audits from 2023/24. Audit work under the new contracts will take place from 2024 onwards. Any audit fee implications arising from the results of the procurement will be covered by our consultation on the 2023/24 fee scale in twelve months' time.

Consultees will be aware that auditors and auditing have been subject to very high levels of scrutiny in recent times following a number of widely reported financial failures in the private sector. These changes have resulted in significant tensions and pressures in the wider audit market and profession and have led to a series of government-commissioned reviews of audit and audit regulation. The Department for Levelling Up Housing and Communities (DLUHC) has announced a range of measures to be implemented to address the issues identified in the local audit framework specifically. These include a new system leader role to be discharged by a new regulator, the Audit Reporting and Governance Authority (ARGA) when it is established under future legislation.

This consultation on the 2022/23 fee scale is taking place in the context of these pressures and changes. The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2022/23 fee scale, managing the impact of three key elements:

- fee variations approved in relation to 2019/20 and 2020/21 audit work which relate to recurrent audit work that is needed in subsequent audit years;
- changes in local audit requirements; and
- the impact of changes in inflation.

The consultation will close on Friday 30 September 2022.

<https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

# Contact

## Mazars

Director: Mark Dalton

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

Senior Manager: Muhammad Uzair Khan

Email: [muhammad-uzair.khan@mazars.co.uk](mailto:muhammad-uzair.khan@mazars.co.uk)

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