

Audit Progress Report

Cheshire East Council

For the 27 July 2023 Audit and Governance Committee



Introduction

Dear Committee Members

We are pleased to present our latest Audit Progress Report on the audit of the Council's statements of account. We recognise the uncertainty created by having three years of statements subject to audit. In this report we outline the timetable for concluding 2020/21 and 2021/22 and our plan for commencing 2022/23.

This is the first report from your new Engagement Lead, Suresh Patel.

If you would like to discuss any matters in more detail, then please do not hesitate to contact Suresh on 07977 261873.

Yours faithfully



Suresh Patel, Partner - Mazars LLP

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Section 01:
Audit Progress

Audit progress

2020/21 Audit

The position on the key elements of the 2020/21 audit is summarised below.

Financial Statements audit

Our work is complete. We are carrying out our final checks of the updated financial statements. We are aiming to sign the opinion by the end of July.

Value for Money (VFM) arrangements

We plan to complete and report our VFM arrangements work at the same time that we conclude our annual accounts work

Whole of Government Accounts (WGA)

We remain unable to complete the WGA assurance work as we are waiting for the National Audit Office to select its sample of component local authorities.

Audit progress

2021/22 Audit

Financial Statements

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022.

At the June 2023 Committee we referred to a national issue regarding the Council's reporting of its assets and liabilities associated to its membership of the Pension Fund. The draft Council accounts include values based on actuarial reports which use estimates as at 31 March 2022 based on roll forward of information (e.g. membership data) since the last triennial review at 31 March 2019. However, on 1 April 2023 the Council received the latest triennial review from its actuaries, which provides actuals for 31 March 2022. We have agreed that:

- The Council will obtain an updated IAS19 valuation report and amend the draft financial statements for the new figures; and
- Pension Fund auditors will complete testing on the reliability and accuracy of the updated pension fund membership data.

These two work streams are in progress and are expected to be completed in the summer. The audit opinion will be issued thereafter. We will update the Committee at the next meeting on the current position and report the results of our work in our Follow-up letter which we will issue at the conclusion of the audit.

Value for Money arrangements

We plan to complete and report our VFM arrangements work for 2021/22 alongside 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).

Whole of Government Accounts (WGA)

As with 2020/21, we remain unable to complete the WGA assurance work as we are waiting for the National Audit Office to select its sample of component local authorities.

Audit progress

2022/23 Audit

Given the back log of local authority accounts audits nationally and the fact that we have yet to conclude on the Council's 2020/21 and 2021/22 accounts audits we have recently communicated to the Council our intention to defer commencement of the 2022/23 accounts audit until September 2023. We recognise that the Council's finance team have worked hard to publish draft 2022/23 statements of account by the end of May and we acknowledge their disappointment with our decision. Indeed, the Council is in the minority of councils to have met the target date for publishing draft accounts.

We will issue our 2022/23 Audit Strategy Memorandum to the September Audit and Governance Committee and aim to issue our Audit Completion Report to the December meeting.

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Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1	CIPFA Bulletins	CIPFA has recently issued two Bulletins to provide further guidance on the financial reporting requirements.
National Audit Office (NAO)		
2	Good practice in annual reporting	The NAO published an interactive guide that provides examples of good practice in annual reporting.
3	Tackling Fraud and Corruption in Government	This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.
4	Digital Transformation	This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems.
Department for Levelling Up, Housing and Communities		
5	Department consultation – public inspection of Category 1 authority accounts 2022/23	The Department for Levelling Up, Housing & Communities (DLUHC) is requesting views on the current deadline for category 1 authorities to make their draft accounts available for public inspection.
6	Levelling up enquiry on Local Audit	The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.
Other		
7	ICAEW Vision for Local Audit	The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).
8	Fiscal pressure & inflation challenges for the public & social sector	Mazars commissioned a report looking into how the public services are responding to fiscal and inflationary pressures.

NATIONAL PUBLICATIONS

Chartered Institute of Public Finance and Accountancy (CIPFA)

1. CIPFA Bulletins

Bulletins issued by CIPFA, with the assistance of CIPFA panels, provide practitioners with topical guidance on specific issues and accounting and reporting developments. CIPFA has issued the following Bulletin's in recent months:

[CIPFA Bulletin 13 – Local Authority Reserves and Balances \(March 2023\)](https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-13-local-authority-reserves-and-balances). This provides guidance to local authority chief finance officers in England, Northern Ireland, Scotland and Wales on the establishment and maintenance of local authority reserves and balances. The bulletin largely updates guidance in previous bulletins.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-13-local-authority-reserves-and-balances>

[CIPFA Bulletin 14 – Closure of the 2022/23 Financial Statements \(March 2023\)](https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-closure-of-the-2022-23-financial-statements). The annual year-end accounting bulletin provides updates on key issues and includes sections on:

Grant recognition and presentation

Subsequent measurement of property, plant and equipment and investment properties

Other capital accounting issues – capital financing requirement (CFR) and minimum revenue provision

Reporting impacts of inflation and high interest rates – financial statements

Final triennial valuation statements received by pension fund account preparers – 2021/22 issue

Narrative report and recent economic activity

Accounting standards that have been issued but not yet adopted and IFRS 16 Leases mandatory implementation as of 1 April 2024 (and other IFRS 16 issues)

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-closure-of-the-2022-23-financial-statements>

[CIPFA Bulletin 14 – Supplement on The Triennial Valuation and IAS19 Reporting \(May 2023\)](https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-supplement-the-triennial-valuation-and-ias-19-reporting). This supplementary guidance covers the impact of the triennial valuation statements received for pension funds on IAS 19 Employee Benefits Reporting. It effects the 2021/22 financial statements.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-14-supplement-the-triennial-valuation-and-ias-19-reporting>

NATIONAL PUBLICATIONS

National Audit Office

2. Good practice in Annual Reporting – February 2023

The NAO has published an [interactive guide](#) that provides examples of good practice in annual reporting, drawing on examples from the public sector and other organisations shortlisted for the Building Public Trust Awards, which recognise trust and transparency in corporate reporting.

The guide draws on examples of good practice for annual reporting from organisations who are leading the way in this area. These examples are grouped by the sections of an annual report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

It also provides further examples where bodies have made their reports easier to understand with the use of graphics, clear and accessible language and signposting. The list is not definitive, but the NAO hopes it provides ideas for all bodies in both the public and private sector to think about as they plan their annual reporting for 2022-23.

NATIONAL PUBLICATIONS

National Audit Office

3. Tackling Fraud and Corruption against Government – March 2023

Since the start of the COVID-19 pandemic, government has recorded a higher level of fraud in the accounts we audit. This reflects the nature of the government's response to the pandemic, including the rapid implementation of large new spending and loan programmes that came with an unusually high risk of fraud.

This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.

The report follows NAO previous work which found government did not have a good understanding of fraud before the pandemic. In NAO's 2016 [Fraud landscape review](#), they found a large disparity between the level of fraud and error that the UK government reports and the level reported in other countries and the private sector. NAO also found there were few incentives for departments to record and report the true scale of potential fraud; a lack of data or metrics to evaluate performance in detecting and preventing fraud; and mixed capability across departments to tackle fraud.

The report can be found at the following link:

<https://www.nao.org.uk/reports/tackling-fraud-and-corruption-against-government/>

4. Digital Transformation in Government – Addressing the Barriers - March 2023

This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems. NAO focus on the approach to transforming government, how the Central Digital and Data Office, its Roadmap and departmental leaders will support and promote this, and whether senior business leaders across government have a suitable level of digital capability.

The report can be found at the following link:

<https://www.nao.org.uk/reports/digital-transformation-in-government-addressing-the-barriers/>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

5. Department Consultation on public inspection of Category 1 authority accounts 2022/23 – February 2023

In March 2021 The Accounts and Audit (Amendment) Regulations 2021 amended the requirements about when accounts must be made available for public inspection for the 2020/21 and 2021/22 accounts, and provided that the period for the exercise of public rights needed to commence on or before the first working day in August in the following financial year.

For 2022/23, the statutory requirement for category 1 authorities is to make accounts available for public inspection for a period that includes the first 10 working days of June, effectively requiring them to be published by 31 May at the latest.

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

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

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

The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.

The inquiry will scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.

The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as ‘red flag’ for action by councils to address financial issues, and how auditors in local government could work together to share best practice.

The Committee welcomes written evidence on the terms of reference, which fall under the following headings:

- Users and uses of local authority accounts and audit
- Understandability and accessibility of local authority accounts and audit
- Making local authority accounts meet the needs of users better
- Addressing findings in audits and sharing best practice

<https://committees.parliament.uk/work/7348/financial-reporting-and-audit-in-local-authorities/news/186485/levelling-up-committee-launches-inquiry-on-local-audit/>

NATIONAL PUBLICATIONS

ICAEW

7. ICAEW Publishes its Vision for Local Audit – March 2023

The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).

The ICAEW welcomes the MoU, which covers the role of the 'shadow' system leader for local audit pending the establishment of the Audit, Reporting and Governance Authority (ARGA). The ICAEW also believes more needs to be done urgently if the local financial reporting and audit crisis is to be resolved.

The ICAEW's vision for local audit is designed to prompt discussion, identifying a series of challenges the ICAEW believes need to be overcome, and actions it supports to address those challenges. These are grouped into the following areas:

- Improve financial reporting to enhance transparency and accountability
- Deliver high-quality local audits on a timely basis
- Strengthen financial management and governance
- Reform finances to ensure value for money and protect the public interest
- Build a thriving profession that is highly valued

<https://www.icaew.com/insights/viewpoints-on-the-news/2023/mar-2023/ICAEW-publishes-its-vision-for-local-audit>

NATIONAL PUBLICATIONS

Mazars

8. Fiscal pressure and inflation challenges for the Public and Social Sector – June 2023

Mazars has published a report specifically looking at how public services are responding to fiscal pressures and inflation. This includes whether public and social sector organisations are able to deliver support where it is most needed and how they are redefining essential services against the backdrop of the significant inflationary pressures the UK faces and the current cost of living crisis.

Key findings:

- Supporting vulnerable communities is a public & social sector imperative – The public & social sector is taking proactive steps to strengthen support an service delivery to deprived communities but more could, and should, be done to safeguard vulnerable citizens.
- Innovation and collaboration are key enablers in the fight against financial constraints – As the public & social sector moves to meet rising demand with renewed vigour, innovation and collaboration will play a bigger role in helping those in poverty.
- The public & social sector must redefine its place in an evolving economic landscape – Many service providers are still thinking short-term. Providers need to ensure that public services are future fit and remain relevant to emerging priorities over the next 12-24 months.

<https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Public-and-Social-Sector-insights/Fiscal-pressure-and-inflation-challenges>

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