

Audit Progress Report

City of York Council

Audit Committee July 2023



1. Audit Progress and Audit Planning
2. National publications

01

Section 01:

Audit Progress and Audit Planning

Audit progress – 2021/22 Audit

Purpose of this report

This report provides the Audit and Governance Committee with:

- an update on the status of the 2021/22 Audit;
- a summary of the proposed timings for the 2022/23 audit work; and
- a summary of recent national reports and publications for your information (section 2).

2021/22 Audit

Financial Statements audit

Since the last meeting of the Committee an additional issue emerged which is relevant to the 2021/22 draft financial statements because actuaries carrying out the Pension Fund triennial valuations informed employers that their work in updating membership and other assumptions has resulted in material changes to the 31 March 2022 valuation reports used to prepare the 2021/22 draft financial statements. Mazars decided to delay completion of 2021/22 Audit Opinions until this matter has been resolved. We have now agreed a resolution the Council obtained an updated actuarial report as at 31 March 2022. The updated report confirms the movement of the defined benefit position is material. The Council has prepared updated accounts and we aim to carry out our audit procedures in July 2023. We have also contacted the North Yorkshire Pension Fund auditor and asked for the audit findings following their review of the revised membership data which we require to complete our work.

We will report the results of all our outstanding work in our Follow-up Letter which we will issue at the conclusion of the audit.

Value for money arrangements

We plan to report our work on the Council's arrangements for 2021/22 upon completion of our financial statements audit and submit our Auditor's Annual Report to the meeting of the Audit & Governance Committee in September.

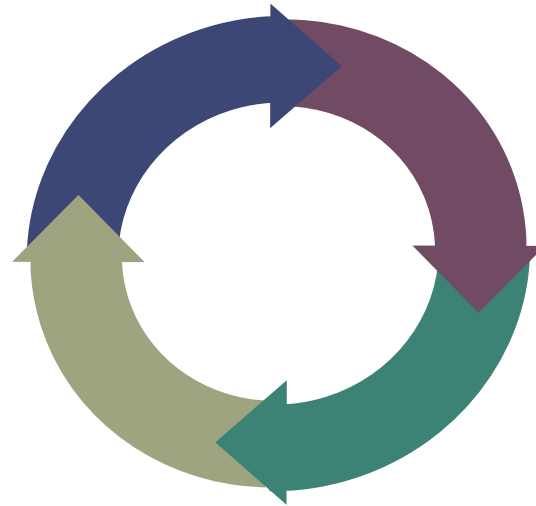
Audit Planning - 2022/23 Audit

Planning and risk assessment (July and August 2023)

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Completion (October 2023)

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



Key business processes and IT (August 2023)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls and application controls
- Issue Audit Strategy Memorandum.

Fieldwork (August – October 2023)

- Reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Reviewing assurances provided by 3rd party service organisations
- Communicating progress and issues
- Clearance meeting
- Completing Value for Money (VFM) risk assessment

Audit Planning - 2022/23 Audit

Upon completion of our risk assessment, we will identify 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

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

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.

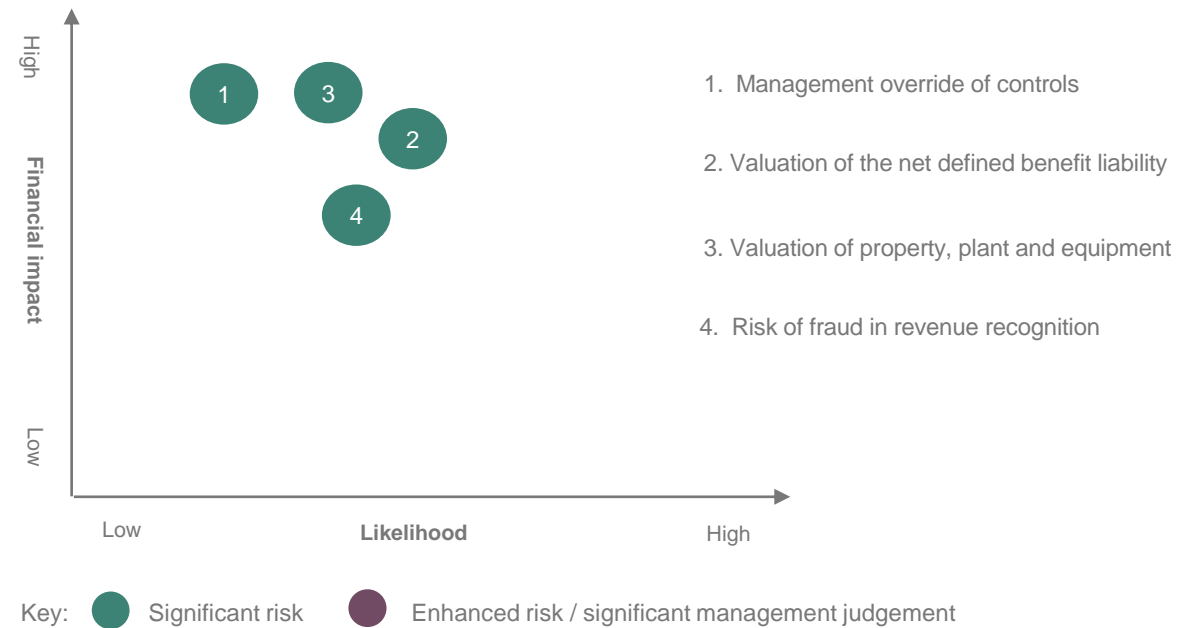
Standard risk

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.

We will refresh our risk assessment following our initial planning meetings with finance officers and completion of our audit planning work.

Summary risk assessment (expected risks)

The summary risk assessment, illustrated in the table below, highlights those risks which we expect to be significant and other enhanced risks in respect of the Council.



02

Section 02:

National publications

National publications

	Publication/update	Key points
National Audit Office (NAO)		
1	Good practice in annual reporting	The NAO published an interactive guide that provides examples of good practice in annual reporting.
2	Tackling Fraud and Corruption in Government	This report sets out the recent trends from NAO audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from their work and engagement with experts on what more government can do to better prevent fraud and corruption.
3	Digital Transformation	This report evaluates government's approach to addressing the underlying issues of why past attempts at digital transformation have run into problems.
Department for Levelling Up, Housing and Communities		
4	Department consultation – public inspection of Category 1 authority accounts 2022/23	The Department for Levelling Up, Housing & Communities (DLUHC) is requesting views on the current deadline for category 1 authorities to make their draft accounts available for public inspection.
5	Levelling up enquiry on Local Audit	The Levelling Up, Housing and Communities Committee has launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.
Other		
6	ICAEW Vision for Local Audit	The Institute for Chartered Accountants in England and Wales (ICAEW) has published its vision for local audit to accompany the recent publication of a Memorandum of Understanding (MoU) between the Department of Levelling Up, Housing and Communities (DLUHC) and the Financial Reporting Council (FRC).
7	Public Interest Report – Croydon Council	Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council.
8	Local Leadership Framework for Councillors	The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

NATIONAL PUBLICATIONS

National Audit Office

1. Good practice in Annual Reporting – February 2023

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

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

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

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

NATIONAL PUBLICATIONS

National Audit Office

2. Tackling Fraud and Corruption against Government – March 2023

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

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

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

The report can be found at the following link:

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

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

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

The report can be found at the following link:

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

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

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

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

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

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

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

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

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

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

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

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

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

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

NATIONAL PUBLICATIONS

ICAEW

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

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

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

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

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

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

NATIONAL PUBLICATIONS

Public Interest Report

7. Croydon Council Public Interest Report – February 2023

Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council. His report, completed in March 2021, but only just published in February 2023 found that the dysfunctional leadership and poor governance arrangements contributed to the authority's financial collapse.

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability, and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control. The full report, which includes a number of lessons that other Councils can learn from, can be seen here:

<https://www.croydon.gov.uk/council-and-elections/budgets-and-spending/reports-and-reviews/report-public-interest-fairfield-halls>

NATIONAL PUBLICATIONS

Public Interest Report

8. Local Leadership Framework for Councillors - March 23

The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

The framework builds on the roles and skills set out in 'The 21st-century Councillor' research report – which sets out seven key future roles for councillors. These show how councillors are adapting to a series of new challenges such as perma-austerity, evolving citizen expectations, new technologies, different scales of working and the changing organisation of public services at local level. The leadership skills in this framework will enable councillors to fulfil the 'seven roles of the 21st-century councillor', identified in the research report namely:

- steward of place – working across the local area in partnership with others
- advocate – acting to represent the interests of all citizens
- buffer – seeking to mitigate the impact of austerity on citizens
- sensemaker – translating a shift in the role of public services and the relationship between institutions and citizen
- catalyst – enabling citizens to do things for themselves, having new conversations about what is now possible
- entrepreneur – working with citizens and partners to encourage local vitality and identify creative new solutions
- orchestrator – helping broker relationships, work with partners and develop new connections.

<https://www.local.gov.uk/publications/local-leadership-framework-councillors#about-this-framework>

Contact

Mazars

Partner: Mark Kirkham

Email: Mark.Kirkham@mazars.co.uk

Manager: Mark Outterside

Email: Mark.Outterside@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

Follow us:

LinkedIn:

www.linkedin.com/company/Mazars

Twitter:

www.twitter.com/MazarsGroup

Facebook:

www.facebook.com/MazarsGroup

Instagram:

www.instagram.com/MazarsGroup

WeChat:

ID: Mazars