

# Audit Planning Update and Progress Report

City of York Council

Audit & Governance Committee March 2023



1. Audit Planning Update and Progress
2. ISA 315 (Revised 2019) - identifying and assessing the risks of material misstatement
3. National publications

# 01

Section 01:  
**Audit Progress**

# Audit progress

## Purpose of this report

This report provides the Audit and Governance Committee with updates on:

- the 2020/21, 2021/22 and 2022/23 audits;
- revised auditing standard for identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019); and
- recent reports and publications for information as listed in Section 3.

## 2020/21 Audit of accounts

### Whole of Government Accounts (WGA)

We received confirmation that the Council's 2020/21 WGA submission is below the NAO's (National Audit Office's) audit threshold and we have completed our submission. We are currently waiting for the National Audit Office (NAO) to confirm which councils are in scope for full Group Audit procedures.

### Audit Certificate

The Audit Certificate will be issued, and the audit formally closed, when the remaining stage set out above is completed.

## 2021/22 Audit of Accounts

### Financial statement's audit

Our Audit Completion Report (ACR) for 2021/22 was discussed during the meeting of the 2022 Audit and Governance Committee in November 2022.

In January 2023 CIPFA published its bulletin setting out the way forward for accounting for infrastructure assets and we are working with management to complete the required work in this area. Management has also provided evidence to enable us to complete the other areas highlighted in section 2 of the Audit Completion Report with the exception of WGA which requires the NAO to publish its group instructions to enable us to complete our work.

### Value for money arrangements 21/22

The scope of our audit work is largely unchanged since 2020/21 and the management self assessment, with supporting evidence, provides a good platform for our 2021/22 assessment. The Financial Sustainability theme is an area of focus as the sector faces increasing uncertainty over future funding and ongoing cost pressures.

At the time of writing this report, we have not fully completed our work. We have, however, identified two significant weaknesses in arrangements which we expect to include in our Auditor's Annual Report. These are highlighted on pages 6 and 7 of this report.

We plan to issue our Auditor's Annual Report to the meeting of the Audit and Governance Committee in June 2023 following the completion of our 2021/22 financial statements audit.

# Audit progress

## 2022/23 Audit of accounts

We are about to start our planning work for the 2022/23 audit period. As part of our planning work, we will meet with finance officers in order to discuss the timetable and key risks. We will continue to have regular catch up meetings with the finance team as the audit progresses.

We intend to bring our Audit Strategy Memorandum (ASM) to the meeting of the Audit and Governance Committee in June 2023; this will include the impact of our risk assessment under the new auditing standard applying for 2022/23 onwards (ISA 315R) and detailed in section 2 of this report.

We have outlined what we expect to include in our ASM relating to potential significant and enhanced risks on page 8 of this report.

# Audit progress

## Value for money arrangements 21/22

Below is the significant weakness in arrangements and recommendation reported in 2020/21. One of the key parts of the Council’s response, was to commission a third party, the Local Government Association (“LGA”) to undertake an assurance review on the “Public Interest Report Action Plan”. The results were published in February 2023 and while the report provides assurance that the Council is implementing procedures to address the recommendations highlighted in the PIR, it also highlights on-going weaknesses and additional actions for CYC to action.

We noted the progress made by the Council in 2021 after accepting our recommendations and the LGA report provides additional evidence that the Council has made progress to adequately address recommendations 1, 2, and 5 in the PIR. While the LGA confirmed good progress had been made implementing its action plan, for recommendations 3 and 4, the LGA highlighted the following areas as requiring additional work:

- mandatory training on the constitution has not been implemented; and
- a lack of progress in delivering code of conduct training for all Members.

On this basis, while we consider the Council to have made progress, there is still evidence of significant weaknesses in governance arrangements in 2021/22.

Identified significant weakness in arrangements	Reporting criteria	Remaining recommendations for improvement 2021/22
<p><b>Public Interest Report in respect of severance paid to the former Chief Executive</b> We issued a Public Interest Report on 19 April 2021 including recommendations to address the significant weaknesses we identified in the Council’s arrangements in respect of the severance of the former Chief Executive:</p> <ul style="list-style-type: none"> <li>• elements of the exit package, described in both the business case considered by Members and in the financial statements as contractual, were paid at the discretion of the Council and were not contractual entitlements;</li> <li>• the business case considered by Members did not include sufficient facts, both in terms of financial analysis and background information, to make an informed decision;</li> <li>• decision records that document the use of public funds under the scheme of delegation were not maintained; and</li> <li>• safeguards to prevent conflicts of interest and demonstrate the Council applies the principles and values of sound governance were not applied.</li> </ul>	<p>Governance</p> <p>Improving 3 Es</p>	<ul style="list-style-type: none"> <li>• The Council should review the design of its governance policies and procedures to manage conflicts of interest (including self-interest threats).</li> <li>• The Council should ensure all Members fully understand the requirements of the Code of Conduct in relation to declaration of interests.</li> </ul>

# Audit progress

## Value for money arrangements 21/22

As stated on slide 4, we have not fully completed our work but we expect to report the following significant weakness in the Council's arrangements in 2021/22. The last full Inspection of Children's Services was in November 2016 under the previous Single Inspection Framework (SIF) when the Council was assessed as 'good'. In March 2022 Ofsted issued the results of its inspection of children's services which took place in March 2022. Following the March 2022 inspection, the Council's rating has been downgraded to 'requires improvement to be good'. The inspection report sets out seven areas that require improvement and required an action plan to be implemented within 70 days of the publication of the report.

While the report confirms the Chief Operating Officer and elected Members are well informed and clearly sighted on where improvements are needed, consistent with the requirements for audits under the 2020 Code and AGN 03, issued in December 2021, we are required to highlight to Those Charged With Governance regulatory issues as a weakness in the Council's arrangements as part of our VFM commentary.

Identified significant weakness in arrangements	Reporting criteria
<p><b>Children's services</b></p> <p>The Office for Standards in Education, Children's Services and Skills (OFSTED) inspects and regulates children and young people's services. The Council's children's services were last inspected in 2016, a rating of "Good" was achieved.</p> <p>OFSTED carried out further work in March 2022 and published the results in May 2022. The overall effectiveness of children's services was graded as "requires improvement to be good", and OFSTED reported weaknesses that include: consistency of written records; quality of assessments; and social work supervision arrangements.</p> <p>The matters identified by OFSTED are relevant to the financial year ending 31 March 2022 and, in our view, indicate a significant weakness in the Council'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).</p>	<p>Governance</p> <p>Improving 3 Es</p>

# Audit progress

## Opinion 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.

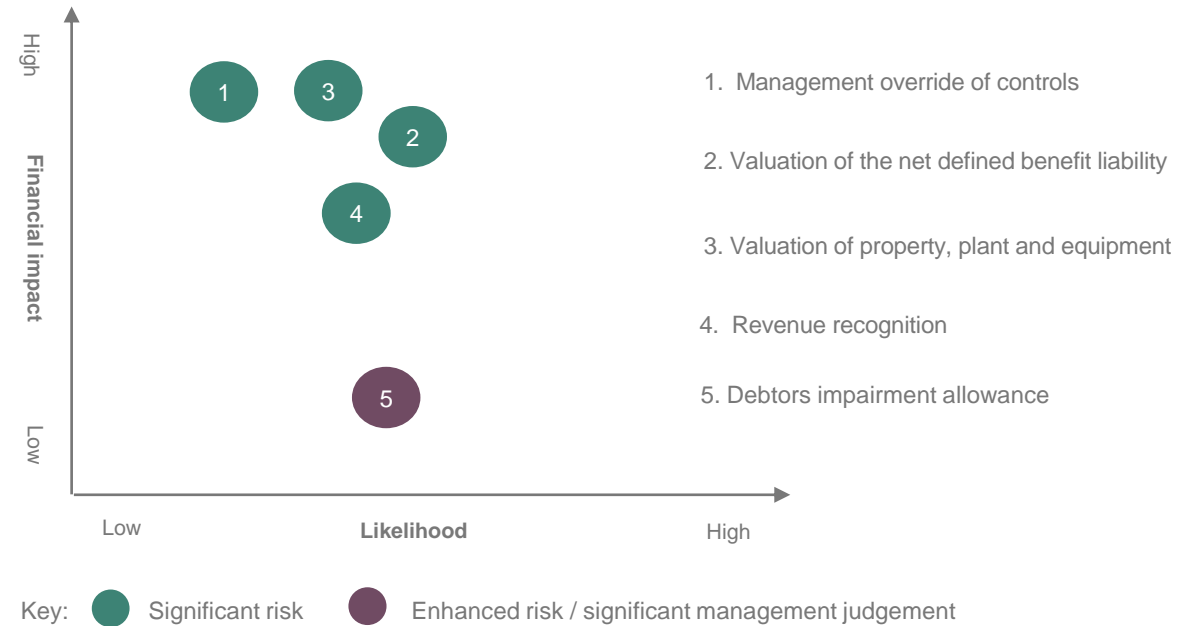
## Standard risk

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:

**ISA (UK) 315 (Revised 2019) identifying and assessing  
the risks of material misstatement**

## 2. Revised ISA 315

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

(Effective for audits of financial statements for periods beginning on or after December 15, 2021)

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 main changes relevant to your audit are outlined below:

- **Enhanced risk identification and assessment**

The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework and to identify inherent risk factors to drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these inherent risk factors, the auditor assesses inherent risk on the "spectrum of inherent risk", at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions to the right.

- **Greater emphasis on IT**

In response to constantly evolving business environments, the standard has placed 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, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

- **Increased focus on controls**

As a result of the emphasis for auditors to gain a greater understanding of the IT environment, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

Assertion	Risks
Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?

Audit progress

Revised ISA 315

National publications

# 2. Revised ISA 315

## Impact on the audit of the Council

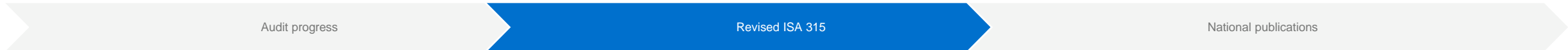
Our risk assessment procedures will be more granular, and we will be seeking sufficient information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in.

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.

Due to the increased level of understanding prescribed by the revised standard, we will identify Key Business Processes' (KBPs) that have not been documented in previous audits. Consistent with our approach to documenting existing KBPs, we will be required to document our understanding of KBP and consider the design and implantation of any relevant controls. At this stage we expect to scope in KBPs such as:

- accrued income and expenditure;
- provisions;
- expected credit losses;
- revenue - grant income;
- replated parties; and
- severance payments.



# 03

Section 03:

**National Publications**

# National publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
1	Integrating Care	CIPFA has published a report entitled, 'Integrating care: policy, principles and practice for places'.
<b>Public Audit Forum</b>		
2	Consultation responses to the revised Practice Note 10	<p>The Public Audit Forum (PAF) oversees the development and publication of the Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom which was revised in 2022.</p> <p>PAF has now published the responses to the consultation and final draft amendments. These amendments were approved by the Financial Reporting Council in November 2022.</p>
<b>National Audit Office (NAO)</b>		
3	Government Shared Services	The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver.
4	Departmental Overview 2021-22	The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021-22
<b>Department for Levelling Up, Housing and Communities</b>		
5	Technical consultation on consequential changes to the homelessness legislation	This consultation aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.
6	Local government finance policy statement 2023-24 to 2024-25	The policy statement sets out the government's intentions for the local government finance settlement for the next 2 years.

# National publications

Publication/update		Key points
Public Sector Audit Appointments Ltd		
7	Publication of the 2022/23 fee scale	PSAA has published the 2022/23 audit fee scale following consultation.
8	Directory of Auditor Appointments from 2023/24	PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement.
9	PSAA announces the number of audit opinions completed for the 2021/22 audits	PSAA has published this year's position on delayed audit opinions.

# NATIONAL PUBLICATIONS

## CIPFA

### 1. CIPFA publishes integrating care report – December 2022

CIPFA has published a report entitled, 'Integrating care: policy, principles and practice for places'. The report provides an overview of the changes since the Health and Care Act 2022 was introduced and discusses what integration is seeking to achieve. It considers the wider health and care landscape in the current climate and addresses the remaining challenges at place level.

The recommendations and case studies it contains are intended to influence the development of further policy and guidance by central government, and to provide support for practitioners at local level. The purpose of the report is to help health and local government partners to find effective solutions to the challenges of health and care integration.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/press-release-cipfa-publishes-integrating-care-report>

# NATIONAL PUBLICATIONS

## Public Audit Forum

### 2. Consultation on Practice Note 10 (Revised 2022): Summary of Responses and Proposed Amendments – December 2022

The consultation on the exposure draft of the 2022 revision of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10) closed on 16 September 2022 and this document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

Part 1 of PN 10 provides guidance on applying auditing, quality management and ethical standards in the public sector. It is important to consider potential changes to PN 10 in the context of PN 10's status as a Statement of Recommended Practice (SORP): a set of sector-driven recommendations on (in this case) auditing practices for the public sector which guide auditors on how to apply the underlying standards, including International Standards on Auditing (UK) (ISAs (UK)), in the specialised context of the public sector. The PAF has no role in determining the principles or requirements which are included in the ISAs (UK). The PAF also has no direct role in setting the financial reporting frameworks for public sector entities (although member bodies of the PAF maintain dialogue with the framework setters).

As set out in the summary of responses included in the report, respondents commented on a range of issues faced by auditors of public sector entities. By far the most-cited issue was the current situation in local audit in England and current delays in completing audits of local authorities. A number of respondents suggested various ways in which the consultation draft of PN 10 might be amended so as to ameliorate some of these issues by reducing the audit effort in particular areas. There were suggestions that the proposed changes to the guidance on applying ISA (UK) 320 Materiality in planning and performing an audit may have a significant impact on local auditors' approach to materiality judgements.

<https://www.public-audit-forum.org.uk/wp-content/uploads/2022/12/Practice-Note-10-Consultation-Response-2022.pdf>



# NATIONAL PUBLICATIONS

## National Audit Office

### 3. Government shared services – November 2022

The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One)
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three)

The report concludes that the government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence.

The report highlights concerns that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. The NAO, therefore, cannot conclude that this programme is on track to demonstrate value for money.

<https://www.nao.org.uk/reports/government-shared-services/#downloads>

### 4. Departmental Overview 2021-22: Department for Levelling Up, Housing & Communities - December 2022

The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021-22. DLUHC spends nearly £38 billion each year to support economic growth and housing across the country, in collaboration with local authorities. It has overall responsibility in central government for local authorities' funding. Along with other bodies, DLUHC oversees the core accountability system for local authorities.

The guide summarises the key information and insights that can be gained from the NAO's examinations of DLUHC and related bodies in the sector in England, and DLUHC's Annual Report and Accounts.

<https://www.nao.org.uk/overviews/departmental-overview-2021-22-department-for-levelling-up-housing-communities/>

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 5. Technical Consultation on Consequential changes to the homelessness legislation – December 2022

This consultation seeks views on the consequential amendments to homelessness legislation as a result of the Renters Reform Bill, namely, the removal of section 21 evictions, assured shorthold tenancies and fixed-term tenancies and aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.

The scope of the consultation is limited to responses on the legislative technical amendments. The majority of the amendments to the legislation are minor and, while the consultation is open to everyone, most responses are expected to be from local authorities and charities in the homelessness space.

The consultation will run for 7 weeks.

<https://www.gov.uk/government/consultations/technical-consultation-on-consequential-changes-to-the-homelessness-legislation/technical-consultation-on-consequential-changes-to-the-homelessness-legislation>

### 6. Local government finance policy statement 2023-24 to 2024-25 – December 2022

The local government finance policy statement sets out the government's intentions for the local government finance settlement for the next 2 years, providing councils with greater certainty on key aspects of their funding to inform their budget setting process and help them to plan for the future.

For the core settlement the Business Rates Multiplier for 2023-24 will be frozen at 49.9p and Revenue Support Grant (RSG) will increase in line with CPI.

For council tax the bespoke council tax referendum principle of up to 3% or £5, whichever is higher, for unitary authorities remains. In addition, local authorities with social care responsibilities will be able to set an adult social care precept of up to 2% per year, without a referendum.

In respect of the remaining settlement grants, the Rural Services Delivery Grant will remain unchanged, in recognition of the inflationary pressures across the sector the Lower Tier Services Grant will be repurposed along with a proportion of the expired New Homes Bonus legacy payments to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and council tax levels. There will also be new rounds of New Homes Bonus (NHB) payments in 2023-24.

These proposals are subject to consultation which will last for 4 weeks from 19 December 2022 to 16 January 2023.

<https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25/local-government-finance-policy-statement-2023-24-to-2024-25>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 7. News release: Publication of the 2022/23 fee scale – November 2022

PSAA has published the 2022/23 audit fee scale following consultation. Information on the fee scale and consultation is available. Most audit work under this fee scale will be undertaken from April 2023 onwards.

The fee scale applies for the audit work to be undertaken by appointed auditors in respect of the 2022/23 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements for the period 2018/19 to 2022/23.

Auditors will undertake their work under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Under the Local Audit (Appointing Person) Regulations 2015, the 2022/23 fee scale must be published by 30 November 2022 and cannot be amended after that date. Any subsequent changes in national requirements or local circumstances relating to the 2022/23 audits will therefore be the subject of fee variations.

The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a procurement during 2022. PSAA will consult on the fee scale for the 2023/24 audit in early autumn 2023.

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

### 8. Directory of Auditor Appointments from 2023/24 – December 2022

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The Board agreed the appointments at its meeting on 16 December 2022.

<https://www.psa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 9. PSAA announces the number of audit opinions completed for the 2021/22 audits – December 2022

This year's position on delayed audit opinions underscores the scale of the huge challenge that local audit is facing. At the publishing date of 30 November 2022, only 12% of local government bodies' 2021/22 audit opinions have been given. Although this is slightly higher than last year's 9%, this year's publishing date is two months later than the 30 September target for delivery of 2020/21 opinions.

The table below highlights a comparison with previous years.

Year of Account	Publishing Date	Opinions given at the publishing date
2021/22	30 November 2022	12%
2020/21	30 September 2021	9%
2019/20	30 November 2020	45%
2018/19	31 July 2019	57%

What makes the latest position increasingly alarming is that more than 220 opinions from prior years remain outstanding. As opinions have been given at fewer than 60 bodies for 2021/22, this means that a total of more than 630 opinions are currently late. This year the position has been made more difficult by uncertainties concerning the valuation of infrastructure assets, adding to significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.

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

It should be noted, that the opinions for City of York Council were successfully delivered by the publishing dates in the table. However the 2021/22 opinion has been delayed due to the national infrastructure issue highlighted earlier in this report.

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