

Audit Progress Report

Northumberland County Council

Audit Committee January 2023



1. Audit Progress
2. National publications

01

Section 01:
Audit Progress

Audit progress

Purpose of this report

This report provides the Committee with:

- an update in respect of 2019/20 value for money (VFM) work;
- an update in respect of 2020/21 remaining audit work;
- an update in respect of 2021/22 audit work; and
- a summary of recent relevant national reports and publications for your information (Section 2).

2019/20 audit work

Our conclusions in respect of the Council's value for money (VFM) arrangements remain outstanding for the 2019/20 financial year; this, along with the 2020/21 Value for Money work, will be informed by completion of the matters outstanding relevant to the 2021/22 opinion, as detailed below.

2020/21 audit work

Audit work has been paused pending the resolution of the outstanding infrastructure national issues. It is hoped these will be addressed in the near future and we will be in a position to conclude our assessment of the audit opinion that will be given for 2020/21.

Our responsibilities to report on the Council's VFM arrangements remain outstanding, linked to the outstanding financial statements opinion area referenced above.








2021/22 audit work


Our work is ongoing. Work completed to date is subject to review however the significant matters currently outstanding are set out overleaf


We anticipate bringing our 2021/22 Audit Completion Report to this Committee on 29 March 2023.


2. Status of the audit

Our work is on-going and is subject to review; the significant matters outstanding are set out below:

Audit area	Status	Description of the outstanding matters
Property, Plant and Equipment - infrastructure		<p>Consultation was carried out in November 2022 on an optional temporary Statutory Override to allow audits to be completed. We say more on this at page 10.</p> <p>To date, CIPFA have not issued the final guidance to resolve this issue.</p> <p>In addition, we have a number of queries outstanding in relation to PPE valuations.</p>
Pensions		<p>Work is ongoing in this area. In addition, we are awaiting a response from the auditor of Tyne & Wear Pension Fund. The pension fund auditor has been unable to confirm a date for reporting to us.</p>
Group accounts		<p>We are awaiting relevant assurance from the external auditors of Advance Northumberland on completion of their work on the audit of the 2021/22 financial statements.</p>
Other		<p>Completion of various other work, including:</p> <ul style="list-style-type: none"> - review of work by the partner and independent partner - review of the final revised financial statements by our technical team
Revised annual governance statement		<p>We will need to consider, at the point of sign-off, the revised annual governance statement (AGS), which should be updated to cover the period up to and including when our opinion is signed. Given the elapsed time since the AGS was produced, some amendments are anticipated.</p>
Laws and Regulations		<p>Consideration of the outcome of the corporate governance review that is currently being undertaken by SOLACE (Society of Local Authority Chief Executives and Senior Managers).</p>
Post balance sheet events		<p>Our review is ongoing up until the date of signing the auditor's report (the opinion).</p>

 Likely to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.



 Potential to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.


 Not considered likely to result in material adjustment or change to disclosures within the financial statements, or impact on our auditor's report.





2. Status of the audit (continued)

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Audit area	Status	Description of the outstanding matters
WGA		We are awaiting group instructions from the National Audit Office. This will impact on the timing of issuing our audit certificate to formally conclude and close the audit.
Closing procedures		Review of the revised financial statements.

 Likely to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.

 Potential to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.

 Not considered likely to result in material adjustment or change to disclosures within the financial statements, or impact on our auditor's report.



02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition	The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.
2	Consultation on Infrastructure Asset Accounting	CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.
National Audit Office (NAO)		
3	Guide to Corporate Finance in the Public Sector	The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities

National publications

	Publication/update	Key points
Public Audit Forum		
4	Public Audit Forum consultation on Practice Note 10	The Public Audit Forum (PAF) is consulting on the exposure draft for the 2022 revision of Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10).
Public Sector Audit Appointments Ltd		
5	PSAA Announcement of Procurement Outcome	In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies (99% of eligible local bodies) that have opted into its national scheme. PSAA have commenced a consultation on the proposed auditor appointments for all opted-in bodies for audits from 2023/24 to 2027/28 and will write to all bodies to confirm the Board's final decision on the auditor appointments on or before 31 December 2022.
Financial Reporting Council		
6	FRC Major Local Audit Inspection Report	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

2. Consultation on Infrastructure Asset Accounting – October 2022

CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code. Use of the override is expected to be optional, and authorities may choose not to apply it.

It is the government's view that this is a necessary, short-term solution to avoid the widespread qualification of local authority accounts. The government recognises that a long-term solution is required, but due to the complexity of the issue this will necessarily take time, and there is an immediate need to mitigate the risks of widespread qualifications and delays to audit. The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The government is conducting this call for evidence to seek views from sector stakeholders on the effectiveness and clarity of the proposed statutory override.

The consultation includes a draft Statutory Instrument and Explanatory Memorandum. The Indicative date when this Statutory Instrument could take effect is 25 December 2022, so it is unlikely that auditors will be able to issue any audit opinions on clients with material infrastructure assets until at least January 2023.

[The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022: call for evidence - Department for Levelling Up, Housing and Communities - Citizen Space](#)

NATIONAL PUBLICATIONS

National Audit Office

3. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts
- Organisations and functions
- Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

<https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/>

NATIONAL PUBLICATIONS

Public Audit Forum

4. Public Audit Forum consultation on Practice Note 10, September 2022

The Public Audit Forum (PAF) is consulting on the exposure draft for the 2022 revision of Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10), which is expected to be issued in Autumn 2022.

PN 10 sets out how auditors of public sector bodies in England, Scotland, Northern Ireland and Wales apply auditing standards to their work on financial statements. The aim of the Practice Note is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. PN 10 also provides guidance on the approach to the audit of regularity.

PN 10 was last revised in 2020 and there is a need to ensure the Practice Note is updated to take account of changes to International Standards on Auditing (UK) (ISAs (UK)) and other developments in the auditing profession.

The consultation draft has been approved by the Financial Reporting Council.

[Consultation on the 2022 revision of Practice Note 10 - Public Audit Forum \(public-audit-forum.org.uk\)](https://public-audit-forum.org.uk)

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd (PSAA)

5. PSAA Announcement of Procurement Outcome, October 2022

Public Sector Audit Appointments Limited (PSAA) is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. PSAA began the process of procurement of audit services for opted in bodies for the audit of accounts from 2023/24 to 2027/28. They issued an invitation to tender in April 2022, and tenderers has until 11 July 2022 to submit responses.

Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in this procurement. PSAA have offered contracts to six suppliers following a competitive process that was protracted reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide.

In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies (99% of eligible local bodies) that have opted into its national scheme. PSAA have commenced a consultation on the proposed auditor appointments for all opted-in bodies for audits from 2023/24 to 2027/28 and will write to all bodies to confirm the Board's final decision on the auditor appointments on or before 31 December 2022.

[Press release: PSAA Announcement of Procurement Outcome – PSAA](#)

NATIONAL PUBLICATIONS

Financial Reporting Council

6. 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).

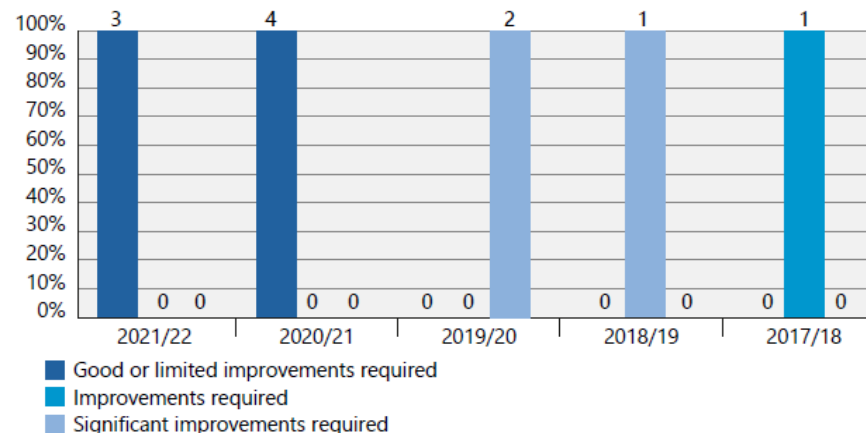
For Mazars, the FRC found that all 3 files reviewed met the expected standards. This was the second successive year of 100% compliance. Whilst the sample size is small and focused on the higher risk audits, the improvement does reflect the investment we have made in people, technical expertise, specialists (such as building on in-house valuation team and strengthening our methodology). Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

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.

<https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf>

Mazars LLP

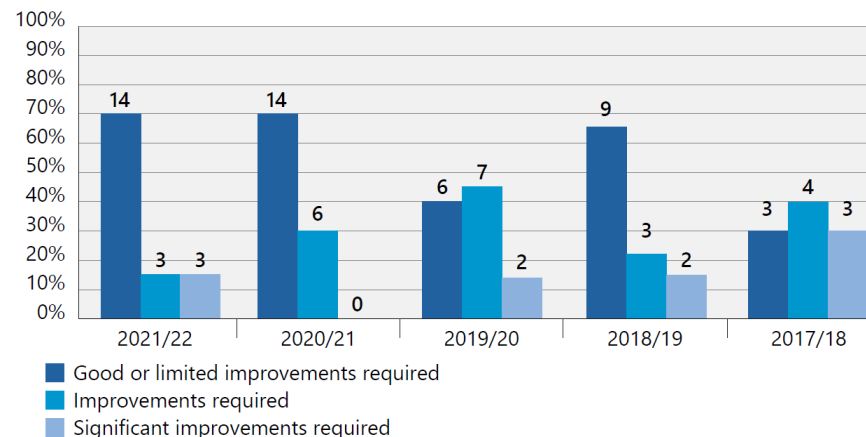
Our assessment of the quality of financial statement audits reviewed



100%

At Mazars LLP, all three financial statement audits inspected were assessed as good or limited improvements required.

All financial statement reviews – for the firms inspected



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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.

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