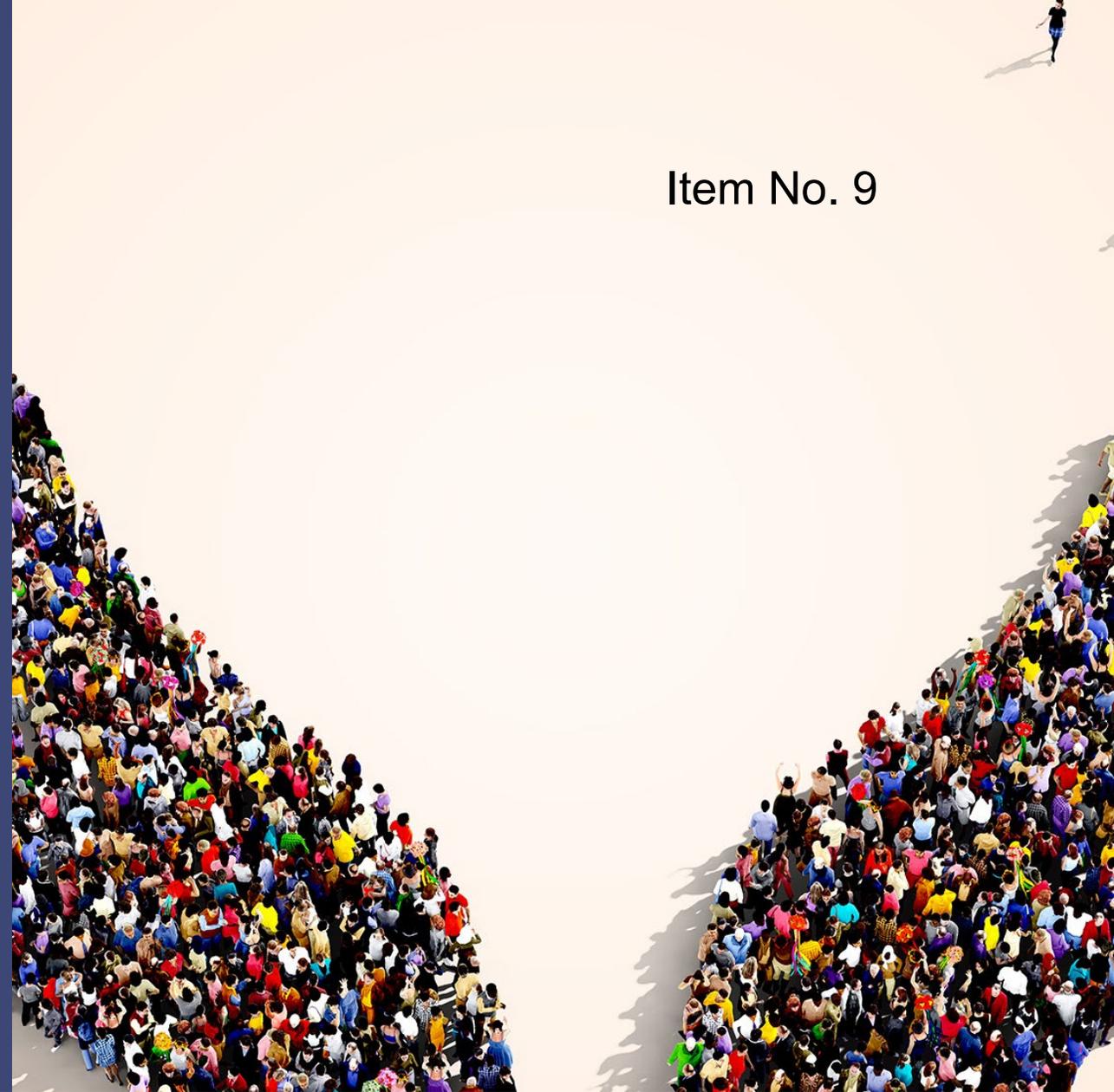


# Audit progress report

Sunderland City Council

January 2022

Item No. 9



1. Audit progress
2. National publications

# 01

Section 01:  
**Audit progress**

# Audit progress

## Purpose of this report

This report provides the Audit and Governance Committee meeting 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 reports and publications.

## 2020/21 statutory audit

- **Value for Money and Auditor's Annual Report 2020/21:** we are completing our value for money work and will be issuing our Auditor's Annual Report to complete 2020/21 shortly. There are no significant matters to report to you at this stage.
- **Whole of Government Accounts (WGA) 2020/21 and overall certificate:** we are required to carry out specific work on the Council's 'whole of government accounts' consolidation schedules once they are available. As of mid-January 2022, the guidance for both councils and auditors has not been produced by the National Audit Office. We are, therefore, unable to issue our formal certificate on the 2020/21 audit until the WGA work has been completed.

## 2020/21 non-audit work

- **Housing benefits subsidy return 2020/21:** we have been engaged again by the Council to carry out 'agreed upon procedures' on its return to the Department of Work and Pensions. This work is on-going at the time of writing this report.
- **Housing Benefits subsidy return additional 'Module X' work for the return 2019/20:** alongside the 2020/21 return, we are also carrying out additional specified testing on an error identified in our work on the 2019/20 return.

## 2021/22 audit

- We have held an initial planning meeting with officers in respect of the 2021/22 audit and timing of work.
- We are running virtual accounts workshops for our local government clients, to be held in February 2022; these workshops will highlight emerging issues and also consider any areas from the prior year's audits.
- We will complete our planning in this quarter, including our walkthrough of key information systems. We will bring our formal 2021/22 Audit Strategy Memorandum to the next Audit and Governance Committee. A summary of the planned work is set out in the diagram on the next page.

# Audit progress

## 2021/22 audit

### Planning February-March 2022

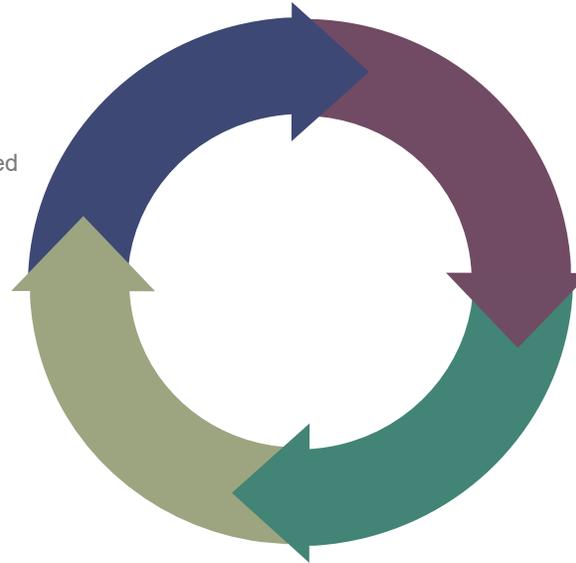
- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
-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

### Completion July-September 2022\*\*

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Accounting and Technical Service review of the financial statements
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

\*\*subject to receipt of Pension Fund auditor assurance and also the accounts being available for 1<sup>st</sup> July.

We note the proposed change to the deadline for audited 2021/22 accounts to 30 November 2022.



### Interim February-April 2022

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

### Fieldwork July-September 2022\*\*

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

\* as per comments to the left

# 02

Section 02:

**National publications**

# National publications

	Publication/update	Key points
<b>Department of Levelling Up, Housing and Communities</b>		
1.	Measures to improve local audit delays	This publication sets out the package of measures to support the improved timeliness of local audit.
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
2.	CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes	The consultations followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments.
<b>National Audit Office (NAO)</b>		
3.	Financial sustainability of schools	Report on the financial sustainability of schools, including academies.
4.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	Lessons learned report.
5.	Cyber and Information Security: good practice guide	Provides a good practice guide for audit committees on cyber security arrangements.
6.	The local government finance system in England: overview and challenges	Looks at what local government in England spends, how this spending is funded and the effect of changes in recent years.
<b>NHS England Improvement</b>		
7.	NHS 2022/23 priorities and operational planning guidance	The guidance, issued in December 2021, clarified arrangements around the new Integrated Care Boards, which will be in place from 1 April 2022, subject to the passage of legislation and CCGs retaining their statutory responsibilities until 1 July 2022.

continued overleaf

# National publications

	Publication/update	Key points
<b>Financial Reporting Council</b>		
8.	Inspection findings into the quality of major local body audits	Sets out the findings of FRC's most recent quality inspection of major local audits.
<b>Mazars LLP</b>		
9.	2020-21 Transparency Report	Sets out the steps we take to enhance the quality of our audit work and ensure consistency of quality.

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 1. Measures to improve local audit delays

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local government.

Challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his review. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays.

As the National Audit Office (NAO) outlined in its 2020 report (in respect of the 2019/20 year) [Timeliness of local auditor reporting on local government in England](#), a variety of complex factors are contributing to audit delays.

#### **Recruitment and turnover**

Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.

#### **Workload and regulatory pressures on auditors**

In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

#### **Staffing pressures**

In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 1. Measures to improve local audit delays (continued)

The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. An additional £15 million in funding has been made available to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.

In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. Therefore, subject to consultation, secondary legislation will be introduced to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 5 years from until 2027/28, and be reviewed at that point.

Subject to consultation, it is proposed that the deadline for preparing draft accounts remains at 31 May, as the majority of local authorities are continuing to meet this requirement and any changes would have implications for the Whole of Government Accounts.

The full publication can be seen at this link: [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/measures-to-improve-local-audit-delays)

# NATIONAL PUBLICATIONS

## CIPFA

### 2. CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes, September 2021

The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. The Prudential Code is a professional code that ensures that capital finance decisions are prudent and sustainable.

The Treasury Management Code, which sits alongside the Prudential Code, provides a framework for effective, risk-managed treasury management in public sector organisations.

CIPFA has set out that: "The key changes being brought forward in these consultations, especially those in the Prudential Code, clarify and update CIPFA's position on local authority commercial investment. The **revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.**

The full publication can be seen at this link: [The Prudential Code for Capital Finance in Local Authorities | CIPFA](#)

# NATIONAL PUBLICATIONS

## National Audit Office

### 3. Financial sustainability of schools, December 2021

The report concludes that the financial health of the mainstream school system has held up well despite the funding and cost pressures that schools have faced in recent years, although the data do not yet reflect the impact that the COVID-19 pandemic may have had. Most maintained schools and academy trusts are in surplus, but there are significant pressures on some maintained secondary schools. The concern in relation to the academy sector is that a sizeable minority of academy trusts are building up substantial reserves, meaning they are spending less than their annual income on their pupils. Ofsted inspection ratings suggest that mainstream schools have generally maintained educational quality, although there are indications that the steps schools are taking in response to financial pressures may adversely affect aspects of their provision.

Since the NAO last reported in 2016, the Department has implemented a range of sensible programmes to support schools to improve their resource management and achieve savings, which have generally been well received by the sector. The programmes have added value and helped schools to achieve savings. We found, however, that the Department's data have not been sufficiently complete or reliable to assess whether the programmes are having the impact it intended or achieving value for money. The Department has started to improve its data but, until it has better information, it cannot make fully informed decisions about the support it offers to schools and how continuously to improve it.

The full report can be seen at this link: <https://www.nao.org.uk/report/financial-sustainability-of-schools-in-england/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 4. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

This report sets out the facts on:

- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 5. Cyber and Information Security: good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- the overall approach to cyber security and risk management;
- capability needed to manage cyber security; and
- specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and its detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: <https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 6. The local government finance system in England: overview and challenges, September 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England, covering three main areas, summarised below.

#### An introduction to local government funding

##### Government policy and actions since 2010

Since 2010 successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit, while making a range of changes to provide local authorities with greater flexibility and local accountability over their income. This part of the overview sets out:

- the extent of government funding reductions since 2010;
- policy developments intended to provide flexibility and local accountability;
- actions government has taken to support funding challenges including COVID-19; and
- key intended reforms to the local government finance system that have been delayed and remain undelivered.

##### Some results or consequences of these changes

The changes implemented by government have impacted on local authorities and caused behaviour change with greater reliance on local sources of income. This part of the overview sets out:

- the impact of funding reductions on patterns of local government spending;
- the impact of increased reliance on locally generated funding, including commercial investment;
- the impact on local authority finance of delays to reform; and
- evidence of strain on the financial resilience of local authorities and the mechanisms established to protect them.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/#>

# NATIONAL PUBLICATIONS

## NHS England Improvement

### 7. NHS 2022/23 priorities and operational planning guidance, December 2021

The objectives set out in this document are based on a scenario where COVID-19 returns to a low level and the NHS is able to make significant progress in the first part of next year as we continue to rise to the challenge of restoring services and reducing the COVID backlogs.

Building on the excellent progress seen during 2021/22, this means significantly increasing the number of people the NHS can diagnose, treat and care for in a timely way. This will depend on the NHS doing things differently, accelerating partnership working through integrated care systems (ICSs) to make the most effective use of the resources available to it across health and social care, and ensure reducing inequalities in access is embedded in its approach. As part of this, and when the context allows it, the NHS will need to find ways to eliminate the loss in non-COVID output caused by the pandemic.

Securing a sustainable recovery will depend on a continued focus on the health, wellbeing and safety of our staff. ICSs will also need to look beyond the immediate operational priorities and drive the shift to managing the health of populations by targeting interventions at those groups most at risk and focusing on prevention as well as treatment. Significant progress has been made in preparing for the proposed establishment of statutory Integrated Care Systems. To allow sufficient time for the remaining parliamentary stages, a new target date of 1 July 2022 has been agreed for statutory arrangements to take effect and Integrated Care Boards to be legally and operationally established. The ICB will be established as a statutory body from 1 April 2022, subject to the legislation being passed, with the Clinical Commissioning Groups retaining their statutory responsibilities until at least 1 July 2022.

The publication can be seen at this link: <https://www.england.nhs.uk/publication/2022-23-priorities-and-operational-planning-guidance/>

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 8. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: <https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins>

# NATIONAL PUBLICATIONS

## Mazars LLP

### 9. 2020/21 Transparency Report

This report sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.

It sets out the following:

Inspiring stakeholder confidence in audit quality

- Investing in our people to drive purpose, pride and quality
- Delivering audit quality
- Quality monitoring
- Audit quality indicators
- Investor and audit committee dialogue
- Ensuring our objectivity and independence

Our risks

- Our approach to risk management

Our structure, leadership and governance

- Our unique business structure
- Leadership and Governance

The full report can be seen at this link: <https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-transparency-report-2020-2021>

## Contact

### Mazars

Partner: Cameron Waddell

Email: [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

Senior Manager: Diane Harold

Email: [diane.harold@mazars.co.uk](mailto:diane.harold@mazars.co.uk)

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The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF  
0191 383 6300

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