

Audit Progress Report

West Yorkshire Combined Authority

Governance and 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's January 2023 meeting with updates on:

- the 2020/21 and 2021/22 audits; and
- recent reports and publications for your information as listed in Section 2.

2020/21 Audit of accounts

Whole of Government Accounts (WGA)

We have received confirmation that WYCA's 2020/21 WGA submission is below the NAO's (National Audit Office's) audit threshold, we can now complete this work. We plan to work with management to complete the 2020/21 WGA audit at an appropriate time.

Audit Certificate

The Audit Certificate will be issued, and the audit formally 'closed', when the remaining stages set out above have been completed.

2021/22 Audit of Accounts

Financial statement's audit

Our final draft Audit Strategy Memorandum (ASM) for 2021/22 was reported to the July 2022 Governance and Audit meeting. This has been reviewed by our Engagement Quality Control Review (EQCR) Partner and we can confirm there are no further changes to our approach or to the risks identified. We have received the 2021/22 draft financial statements and as per our ASM we have started the fieldwork stage of the audit. We plan to report our findings in February 2023.

As highlighted in Section 2 of this report, there is currently some uncertainty over CIPFA's proposed resolution of the Infrastructure accounting matter. As at the time of drafting this report, we expect CIPFA to provide a resolution to the issue early in 2023. We are continuing to liaise with management on this matter and will keep the Committee informed as the audit progresses.

Value for Money Work

The scope of the value for money (VFM) assessment is largely unchanged since 2020/21 and the management self assessment with supporting evidence, provides a good platform for the 2021/22 assessment. The Financial Stability theme is expected to be an area of focus, as in common with our other local government clients, the sector faces increasing uncertainty over future funding and cost pressures.

Although we have not fully completed our VFM planning and risk assessment work, to date, we have not identified any risks that significant weaknesses in arrangements exist. We will report any identified risks to the Audit and Governance Committee on completion of our planning and risk identification work. We plan to issue our Auditor's Annual Report within the NAO's three month deadline, following the completion of the 2021/22 financial statements audit.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets	The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. This is yet to be resolved
2	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
National Audit Office (NAO)		
3	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
4	Improving government data: A guide to senior leaders	The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past
5	WGA 20-21 and 21-22	The NAO's Whole of Government Accounts (WGA) team has now issued Group Audit Instructions (GAI) and the Assurance Statement in respect of the 2020-21 and 2021-22 WGA processes
Financial Reporting Council (FRC)		
6	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
Public Sector Audit Appointments Ltd		
7	Consultation on proposed auditor appointments from 2023/24	Consultation document

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets

The issue of accounting for infrastructure assets is a technical accounting one, and arises principally because of information availability relating to these assets.

Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns have been raised that some authorities are not applying component accounting requirements appropriately. The issue raised is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation. Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at 'current value'. The valuation process for these assets was deemed to be too costly and, therefore, infrastructure assets are held in local authority balance sheets at depreciated historical cost.

Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

The CIPFA LASAAC Local Authority Code Board has released temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. An urgent consultation on these proposals closed on 14 June 2022.

The temporary proposals address the above issue regarding the derecognition of parts of local authority infrastructure assets as they are replaced. CIPFA LASAAC and CIPFA established a Task and Finish Group to find a solution to this issue and consider the outcome of any proposed changes to the code. Following advice from the Task and Finish Group, CIPFA LASAAC has now issued temporary proposals for changes to the code relating to how these issues are reported. They include:

- confirming the accounting consequences of derecognition, e.g. that the effect on the carrying amount is nil (on a presumption that the replaced parts are fully depreciated);
- temporarily adapting the code to remove the reporting requirements for gross historical cost and accumulated depreciation
- providing extra guidance on how depreciation may be applied for infrastructure assets
- CIPFA LASAAC will consult on a longer-term solution later in the year.
- As at the time of writing this report this matter has yet to be resolved.

<https://www.cipfa.org/policy-and-guidance/urgent-task-and-finish-group-local-authority-infrastructure-assets>

NATIONAL PUBLICATIONS

CIPFA

2. 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>

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/>

4. Improving government data: A guide to senior leaders - July 2022

The NAO has published Improving government data: A guide for senior leaders aimed at accounting officers, chief executives, director generals, directors and chief operating officers and people responsible for government services. The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past. The guide focusses on data to support the operational delivery of public services, but much of the guide will also be relevant to data for decision-making and to improve performance

<https://www.nao.org.uk/insights/improving-government-data-a-guide-for-senior-leaders/>

NATIONAL PUBLICATIONS

National Audit Office

5. Whole of government accounts (WGA)

WGA 2020-21 - July 2022

The NAO's Whole of Government Accounts (WGA) team has now issued Group Audit Instructions (GAI) and the Assurance Statement in respect of the 2020-21 WGA process. In a change to the process for 2020-21, HM Treasury have elected to raise the threshold for local government to £2bn, aligning it with the central government threshold. While all entities above the minor bodies threshold will continue to have to complete and submit a WGA return, only those above the threshold as set by HM Treasury will be required to have their return subject to audit.

The rights and requirements of the NAO can extend beyond the thresholds set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will need to consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls to determine whether they require, for their purposes, any assurances from auditors of components who are below the HM Treasury thresholds.

The deadline for submission of returns for the 2020-21 WGA process is 31 August 2022. Completed returns should be sent to: wgareturns@nao.org.uk

WGA 2021-22 - August 2022

The HM Treasury wrote to component finance teams notifying them that the deadline for submitting Cycle 2 returns has been extended to 30 September 2022. As a result of this, the WGA audit team have revised the deadline for assurance statements to 30 September, to align with HM Treasury's deadline. HMT also highlighted the WGA guidance for preparers, as it can be helpful for addressing a number of general queries:

<https://www.gov.uk/government/publications/whole-of-government-accounts-2020-to-2021-guidance-for-preparers>

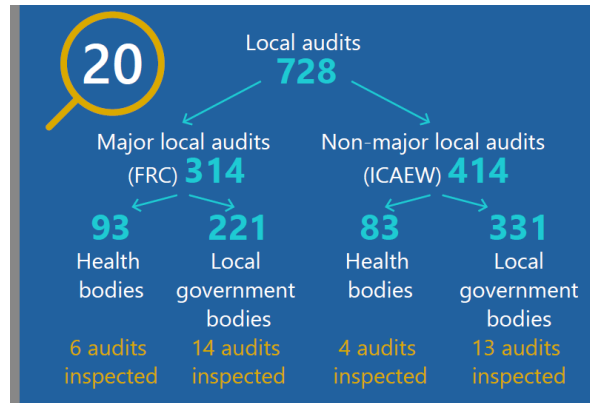
NATIONAL PUBLICATIONS

Financial Reporting Council

6. FRC Major Local Audit Inspection Report - October 2022

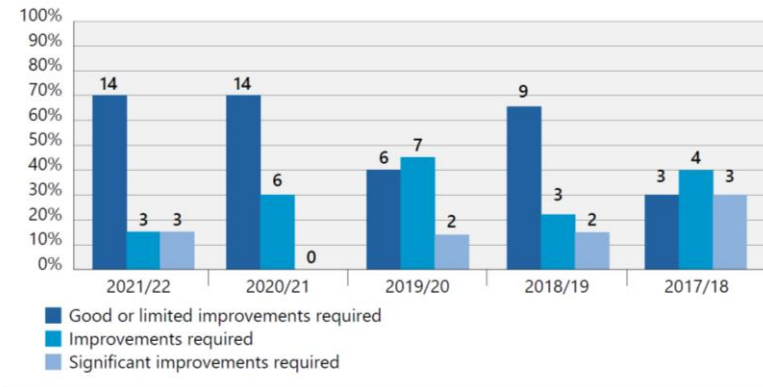
The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
Total	314		20



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.

All financial statement reviews – for the firms inspected



For Mazars, the FRC found that all 3 2021.22 files reviewed met the expected standards.

This was the second successive year of 100% compliance for Mazars.

Whilst the sample size is small and focused on the higher risk audits, these strong outcomes reflect the investment we have made in people, technical expertise, specialists (such as building an in-house valuation team) and strengthening our audit methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

7. Consultation on proposed auditor appointments from 2023/24, October 2022

PSAA has consulted on the on the proposed auditor appointments for all opted-in bodies for audits from 2023/24 to 2027/28. The consultation closed on 14 November 2022.

<https://www.psa.co.uk/2022/10/consultation-on-proposed-auditor-appointments-from-2023-24/>

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