

Progress Report

North West Leicestershire District Council

Audit and Governance Committee July 2022



1. VFM update
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Section 01:
VFM update

VFM update

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information

about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria. As part of work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. To date we have identified one risk of significant weakness which is detailed below.

Summary by reporting criteria

Reporting criteria	2020/21 Risk of significant weaknesses identified?	2020/21 Risk of significant weaknesses identified?	2020/21 Planned audit approach
Financial sustainability	No	No new matters arising to date.	N/a
Governance	Yes	One risk of weakness has been identified. One risk of a significant weakness in arrangements has been identified: there has been a high turnover of staff within the finance and property services team, alongside a number of challenging strategic projects, which has contributed to a delay in finalisation of the 2020/21 financial statements.	To address this risk we plan to: monitor progress in the finalisation of 2020/21 financial statements; review and discuss the root causes of delays with officers; and complete our audit of the 2020/21 financial statements
Improving economy, efficiency and effectiveness	No	No new matters arising to date.	N/a

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	Updated statement on the deferral of IFRS 16 leases	Following its emergency consultation on proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement.
2	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.
Department for Levelling Up, Housing and Communities		
3	Creation of the Audit Reporting and Governance Authority	A new regulator, the Audit Reporting and Governance Authority (ARGA), to be established as the system leader for local audit within a new, simplified local audit framework.
National Audit Office (NAO)		
4	Audit and Assurance Committee effectiveness tool	NAO's effectiveness tool provides a way for ARACs to assess their effectiveness
Public Sector Audit Appointments Ltd		
5	Annual Quality Monitoring Report 2019/20	This covers the work of local auditors appointed by PSAA for the 2019/20 financial year. The report provides information from PSAA's quality monitoring arrangements throughout the year, survey results and findings from professional regulation and contractual compliance. The report details how the Financial Reporting Council reviewed four Mazars financial statements audits and all were assessed as meeting the required standard.

NATIONAL PUBLICATIONS

CIPFA

1. Updated statement on the deferral of IFRS 16 leases – April 2022

Following its emergency consultation on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement. This preliminary decision was subsequently considered by the government's Financial Reporting Advisory Board (FRAB). FRAB advised CIPFA LASAAC that it agreed with the deferral of IFRS 16 Leases until 1 April 2024. FRAB also advised CIPFA LASAAC that the Code had to allow and should encourage local authorities to adopt the standard before this date should they wish to.

CIPFA LASAAC has therefore followed its preliminary decision with its formal decision: to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023. CIPFA LASAAC would note that the 2022/23 Code has not yet completed its due process so local authorities should follow the CIPFA LASAAC pages of the website for further updates. Formal due process for the Code by LASAAC and by CIPFA's Public Financial Management Board is anticipated to be complete by the third week in April.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/updated-statement-on-the-deferral-of-ifrs-16-leases>

2. CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets – May 2022

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 is now under way and comments are invited until the consultation closes on 14 June 2022 at 23.00.

The temporary proposals address an issue raised by auditors about the derecognition (removal of the carrying amount) 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.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-lasaac-issues-urgent-consultation-on-code-of-practice>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

3. Creation of the Audit Reporting and Governance Authority – May 2022

Plans to ensure councils and local bodies are delivering value for money for taxpayers, strengthening council finances and reducing risk to public funds have been published by the government.

The government consultation response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA's establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022. This will be led by Neil Harris, who joins as the FRC's first Director of Local Audit to start up a dedicated local audit unit.

The Department for Levelling Up, Housing and Communities has been acting as interim system leader since July 2021, when it established and took the chair of the Liaison Committee of senior local audit stakeholders.

Work has already begun to address the challenges facing local audit with the government announcing a series of measures to improve local audit delays in December 2021.

The consultation response also announces plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.

The announcement comes as government today set out its wider plans to revamp the UK's corporate reporting and audit regime through a new regulator, greater accountability for big business and by addressing the dominance of the Big Four audit firms.

The government continues to work closely with stakeholders, including local bodies and audit firms, to refine proposals for implementing our commitments around system leadership, as well the range of other commitments we have made in response to the Redmond Review.

<https://www.gov.uk/government/news/greater-transparency-and-value-for-money-for-council-finance-system>

NATIONAL PUBLICATIONS

National Audit Office

4. Audit and Risk Assurance Committee effectiveness tool – May 2022

Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm's-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, NAO's effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The effectiveness tool is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

<https://www.nao.org.uk/report/audit-and-risk-assurance-committee-effectiveness-tool/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

5. Annual Quality Monitoring Report 2019/20 – April 2022

This covers the work of local auditors appointed by PSAA for the 2019/20 financial year, which was undertaken during a difficult time for all concerned. The systemic issues that were highlighted in Sir Tony Redmond's Review continued and were compounded by the pandemic.

In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting.

In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function.

The next year is likely to continue to be very challenging for all involved in local audit, but DLUHC (formerly MHCLG) will take forward and refine its proposals in its role as interim systems leader until ARGA is created, and the FRC will create a local audit unit in shadow form.

The problems that Sir Tony Redmond reported on continue to impact significantly on the timely completion of local government audits. Only 45% of audit opinions were completed by the publishing date of 30 November 2020, compared with 58% in the previous year. This has now fallen even further with only 9% for 2020/21 audits of financial statement opinions completed (noting the reversion to a 30 September publishing date). Delayed audit opinions have a real public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. It is imperative that the whole system works together to restore timely completion of audits in order to rebuild public confidence and trust, especially as the lack of a statutory deadline for the audit opinion means that co-operation is essential to make the system work as the public has the right to expect it to.

<https://www.psa.co.uk/managing-audit-quality/annual-audit-quality-reports-from-2018-19/annual-reports/audit-quality-monitoring-report-2019-20/>

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