

# Audit Progress Report

City of Bradford Metropolitan District Council

Governance and Audit Committee September 2022



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# 01

Section 01:  
**Audit Progress**

# Audit progress

## Purpose of this report

This report provides the Governance and Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

## 2020/21 audit

Our one remaining responsibility in respect of the 2020/21 financial year is a review of the Council's whole of government accounts (WGA) return. The National Audit Office (NAO) is in the process of finalising group instructions, which determines the testing we are required to undertake on the Council's WGA return (see page 12 of this report). We have not yet been informed which clients will be sample components, therefore we have not been able to complete this work. Once the NAO has provided this information, we will liaise with Officers to complete the required testing.

Per page 9 of this report, CIPFA is currently consulting in regard to the accounting treatment of infrastructure assets. As the Council's infrastructure assets as at 31 March 2021 are material, we cannot issue our 2020/21 certificate until this issue is resolved.

Following completion of the WGA work and resolution of the infrastructure assets issue, we will issue our Audit Certificate to formally close the 2020/21 audit.

## 2021/22 audit

In March 2022 we completed our initial planning work and commenced early substantive testing for the 2021/22 audit. We presented our Audit Strategy Memorandum to the June Governance and Audit Committee meeting, setting out the audit risks identified in respect of the 2021/22 financial statements. To date, there has been no change to our risk assessment since issuing our Audit Strategy Memorandum.

We received the Council's draft Accounts and Annual Governance Statement on 26 July 2022, in line with the timetable agreed with Officers. Our final accounts fieldwork will commence on 12 September 2022, and is due to continue until November. We plan to report the findings from our audit to the November Governance and Audit Committee meeting. However, as mentioned about, this is subject to the resolution of a national technical issue in respect of accounting for infrastructure assets. Further information on this issue is included on page 9 of this report.

In line with National Audit Office guidance, we expect to present our commentary on the Council's value for money arrangements within three months following the issue of our 2022 accounts opinion. The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

As reported in our Audit Strategy Memorandum, we have not fully completed our planning and risk assessment work, however as part of our 2020/21 audit, we identified significant weaknesses in the Council's arrangements. The table overleaf sets out the significant weakness identified, our previous recommendations and the work we intend to carry out as part of our 2021/22 audit. There has been no change to our risk assessment since issuing our Audit Strategy Memorandum.

# Audit progress

## Our work to follow-up on previous recommendations

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2020/21 recommendations
<p><b>Progress in addressing weaknesses identified by Ofsted’s 2018 inspection of Children’s Services</b>            In 2018 Ofsted assessed children’s services as ‘Inadequate’. In response to Ofsted’s recommendations, the Council developed an action plan to address the issues highlighted by Ofsted.</p> <p>Since the 2018 visit, Ofsted has made several follow-up monitoring visits, and issued Monitoring Letters, summarising their views on progress to-date. In December 2020 Ofsted undertook a focused visit, (reported in February 2021) and shortly after completed a further monitoring visit in April 2021 (reported in June 2021). Ofsted’s Monitoring Letters, issued after these visits, highlighted that whilst the Council had made improvements, concerns remained about the pace of improvement since they issued their 2018 inspection report. Ofsted recommended that the Council needed to improve in the following key areas:</p> <ul style="list-style-type: none"> <li>• workforce challenges, including oversight and workforce instability;</li> <li>• poor working practices, including high caseloads and ineffective planning; and</li> <li>• effectiveness of corporate parenting.</li> </ul> <p>In our view, Ofsted’s concerns around the Council’s progress in addressing the identified weaknesses in children’s services represent a significant weakness in arrangements in relation to Governance and how the Council implements or achieves progress on recommendations raised as a result of previous recommendations from Ofsted.</p> <p>The Council recognises that the ongoing a failure to fully address the weaknesses identified in the 2018 Ofsted report and subsequent Monitoring Letters adversely impacts upon the quality of services provided to service users and may lead to further action by regulators.</p>	<p>Governance</p>	<p>In order to fully address ongoing concerns expressed by Ofsted in its 2018 Report and subsequent Monitoring Letters, the Council should continue to improve its arrangements and action plan.</p> <p>The Council should also ensure that robust monitoring and reporting processes are in place and that challenge, scrutiny and escalation arrangements drive the required improvements for service users and sustain the progress made to-date in implementing the actions to address the issues raised by Ofsted.</p>

# Audit progress

## Our work to follow-up on previous recommendations

### Planned procedures for 2021/22

In January 2022, following recommendations made by the Children's Services Commissioner the Council has announced that it plans to establish a Trust to run services for vulnerable children and families. The intention is that this will be a not-for-profit Trust, which will be owned by the Council and operate at arms-length under the control of a new independent Chair and Board of Directors.

As part of our 2021/22 audit, we will follow up the Council's progress in implementing arrangements to address the weaknesses and recommendations made by Ofsted and, more recently, by the Children's Services Commissioner. Our work will include, but is not limited to:

- discussions with senior management;
- review of reports and minutes;
- review of action plans put in place to address the weaknesses identified by Ofsted and the Children's Services Commissioner;
- considering progress made by the Council to date in addressing the weaknesses identified, including the establishment of the proposed Trust; and
- where available, consider any updates provided directly from Ofsted and/or the Children's Services Commissioner.

# 02

Section 02:

**National publications**

# National publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
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.
2	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.
3	Local Authority Controlled Companies: a good practice guide	A good practice guide due to be published in May 2022; highlighted for potential interest to Committee Members, noting the full guide needs to be purchased.
<b>Department for Levelling Up, Housing and Communities</b>		
4	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.
<b>National Audit Office (NAO)</b>		
5	Audit and Assurance Committee effectiveness tool	NAO's effectiveness tool provides a way for ARACs to assess their effectiveness
6	Whole of Government Accounts 2020-21 Group Audit Instructions	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. HM Treasury have elected to raise the threshold for local government to £2bn, aligning it with the central government threshold.
<b>Public Sector Audit Appointments Ltd</b>		
7	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. CIPFA LASAAC issues urgent consultation on Code of Practice – Infrastructure Assets – May 2022

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.

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

# NATIONAL PUBLICATIONS

## CIPFA

### 2. 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>

### 3. CIPFA Local Authority Controlled Companies: a good practice guide, May 2022

In recent years, the potential risk associated with local authority trading companies and joint ventures has increased. Nothing is risk free, but it is important to learn lessons from others and access support.

This guide aims to assist local authorities by setting out and highlighting existing best practice. It focuses on identifying organisational goals, the process to find the right option to achieve that goal and how to structure the organisation for success.

<https://www.cipfa.org/policy-and-guidance/publications//local-authority-owned-companies-a-good-practice-guide>

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 4. 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 Governance and Audit Committees compulsory for all councils, with each Governance and 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

### 5. 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/>

### 6. Whole of Government Accounts 2020-21 Group Audit Instructions

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.

Further guidance on the WGA process, including guidance on the threshold and its application, can be found on the HM Treasury WGA Guidance website:

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

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 7. 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/>

# Cameron Waddell - Partner

## Mazars

5th Floor  
3 Wellington Place  
Leeds  
LS1 4AP

0781 375 2053

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