

Report to Audit Committee

Update on External Audit Matters

Portfolio Holder: Cllr Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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27 June 2023

Reason for Decision

This is the consideration by the Audit Committee of the Audit Progress Report produced by the External Auditor Mazars LLP.

Executive Summary

This report, attached as Appendix 1, details the progress made on the external audit of the draft Statement of Final Accounts for 2021/22 and that the planned audit approach to the audit of the 2022/23 will be outlined at the next meeting of the Committee.

Recommendations

That the Audit Committee notes the attached report.

Appendix 1

Audit Progress Report

Oldham Metropolitan Borough Council

June 2023



1. Audit Progress
2. National Publications
3. Revised ISA 315

01

Section 01:
Audit Progress

Audit Progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

2020/21 audit

Our final remaining responsibility in respect of the 2020/21 financial year relates to the Council's whole of government accounts (WGA) return. As requested by the National Audit Office, in December we submitted our auditor statement for their WGA group audit purposes. We are still awaiting the NAO to clarify whether they require any work to be carried out on the Council's WGA return.

2021/22 financial statements audit

We reported our draft Audit Completion Report to the March Audit Committee meeting. Since that meeting we have progressed the outstanding issues as follows:

- **Pensions** – the Council's actuary has completed their triennial valuation of Greater Manchester Pension Fund. This valuation is based on actual rather than estimated membership data as at 1 April 2022, and as such provides more up-to-date evidence of conditions as at 31 March 2022. The Council are in the process of obtaining a revised valuation of its net pension liability. If this identifies a material difference to the draft accounts, the Council will update its financial statements to reflect the latest valuation.

We will complete our final review of the financial statements upon receipt of the signed version of the accounts and letter of representation.

2022/23 audit

Our planning for the audit of the 2022/23 financial statements is underway. We highlight for the Audit Committee a change to an auditing standard (known as ISA 315) which applies from 2022/23. We have included, at section 3 of this report, a summary of the changes and the expected impact on our audit work. The finance team have submitted draft accounts on 31 May 2023, in line with the statutory deadline. We will bring our Audit Strategy Memorandum to the next Audit Committee, and our accounts work is due to commence in July 2023.

02

Section 02:

National Publications

National publications

	Publication/update	Key points
Financial Reporting Council (FRC)		
1	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
Chartered Institute of Public Finance and Accountability (CIPFA)		
2	CIPFA Bulletin 14 Supplement – The Triennial Valuation and IAS 19 Reporting	Covers the impact of the triennial valuation statements on IAS 19 Employee benefits reporting
3	CIPFA Bulletin 14: Closure of the 2022/23 Financial Statements	Provides advice on emerging or urgent accounting issues.
Public Sector Audit Appointments Ltd		
4	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies
5	Publication of the 2022/23 fee scale	External audit fees for 2022/23

NATIONAL PUBLICATIONS

Financial Reporting Council

1. 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).

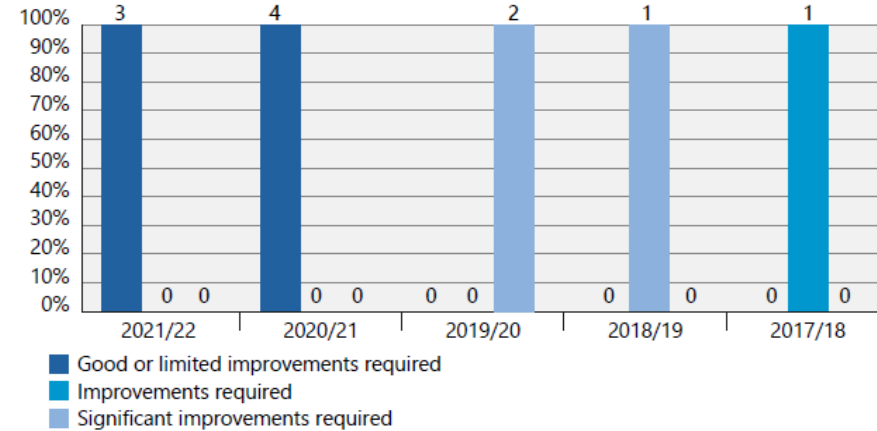
For Mazars, the FRC found that all 3 files reviewed met the expected standards. This was the second successive year of 100% compliance. Whilst the sample size is small and focused on the higher risk audits, the improvement does reflect the investment we have made in people, technical expertise, specialists (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

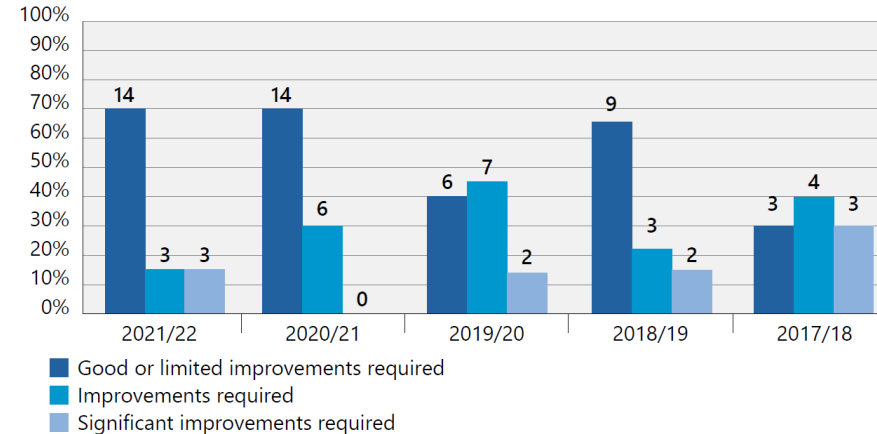
Our assessment of the quality of financial statement audits reviewed



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



NATIONAL PUBLICATIONS

CIPFA

2. CIPFA Bulletin 14 Supplement – The Triennial Valuation and IAS 19 Reporting

The guide is an information source for public bodies to provide advice on the issue of the triennial valuation of the Local Government Pension Scheme (LGPS) being produced before the auditors have provided their opinion.

[file:///C:/Users/ydp02/Downloads/CIPFA%20Bulletin%2014%20Supplement%20The%20Triennial%20Valuation%20and%20IAS%2019%20Reporting%20\(1\).pdf](file:///C:/Users/ydp02/Downloads/CIPFA%20Bulletin%2014%20Supplement%20The%20Triennial%20Valuation%20and%20IAS%2019%20Reporting%20(1).pdf)

3. CIPFA Bulletin 14: Closure of the 2022/23 Financial Statements

The bulletin provides advice on emerging or urgent accounting issues, and guidance that is intended to be best practice.

<file:///C:/Users/ydp02/Downloads/CIPFA%20Bulletin%2014%20Closure%20of%20the%20202223%20Financial%20Statements.pdf>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

4. Directory of Auditor Appointments from 2023/24, January 2023

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The PSAA Board agreed the appointments at its meeting on 16 December 2022. Mazars will continue as the Council's external auditor from 2023/24.

<https://www.psa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/>

5. Publication of the 2022/23 fee scale, November 2022

PSAA has published the 2022/23 audit fee scale following consultation. Information on the fee scale and consultation is available. Most audit work under this fee scale will be undertaken from April 2023 onwards. The Council's scale fee for 2022/23 is £125,673.

The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a procurement during 2022. PSAA intend to consult on the fee scale for the 2023/24 audit in early autumn 2023.

<https://www.psa.co.uk/2022/11/news-release-publication-of-the-2022-23-fee-scale/>

03

Section 03:

Revised ISA315

Revised ISA 315

Revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

(Effective for audits of financial statements for periods beginning on or after December 15, 2021)

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor’s risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The main changes relevant to your 2022/23 audit are outlined below:

- Enhanced risk identification and assessment**

The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework to identify the newly introduced inherent risk factors to drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these inherent risk factors, the auditor assesses inherent risk on the “spectrum of inherent risk”, at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions:

Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?

- Greater emphasis on IT**

In response to constantly evolving business environments, the standard has placed an increased emphasis on the requirements for the auditor to gain an understanding of the entity’s IT environment to better understand the possible risks within an entity’s information systems. As a result, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

Revised ISA 315

- **Increased focus on controls**

Off the back of the emphasis for auditors to gain a greater understanding of the IT environment, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

Impact on the audit of the Council

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in. This will build on the existing strong knowledge of the Council we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Council's IT environment and at this stage are not aware of any significant changes. We will keep this under review as part of our planning and interim audits. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

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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.

*where permitted under applicable country laws.

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