

## Report to Audit Committee

# External Audit Progress Report

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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### Reason for Decision

To present to the Audit Committee, the Audit Progress Report for this Committee (attached at Appendix One) produced by our External Auditor Mazars LLP.

### Executive Summary

The report presents to the Council the key information that the External Auditor feels appropriate to bring to your attention. This report links into the 2021/22 Annual Statement of Accounts previously reported to this Committee.

### Recommendation

It is recommended that the Audit Committee notes the Audit Progress Report produced by Mazars LLP.

# Appendix 1

## Audit Progress Report

Oldham Metropolitan Borough Council

January 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 last Audit Committee meeting. Since that meeting we have progressed the outstanding issues as follows:

- **Financial Instruments – Fair Value disclosure of loans to Manchester Airport** – our internal valuation experts have confirmed the approach adopted by the Council's external advisors, Link, for 2021/22 is reasonable. However they have concluded that the methodology adopted for 2021/22 should also have applied to the fair value disclosures for 2020/21. The Council has already obtained an updated Fair Value report from Link for 2020/21, and can make the appropriate amendments to the disclosures in the accounts for both the 2022 and prior year.
- **Net Pension Liability** – we received confirmation from the GM Pension Fund auditor that they had completed their programme of work as we requested. The report from the Pension Fund auditor noted that the draft Pension Fund financial statements included a non-material understatement in the valuation of investment assets. Our estimate of the impact on the Council's pension assets is that they are understated by £8.7m (Group pension assets would be understated by £9.7m). The Net Pension Liability is consequently overstated by the same amount. We will discuss this with the Council finance team, and will include any misstatements in our final Audit Completion Report at the conclusion of our audit.
- **Property, Plant & Equipment** – the resolution to the sector-wide accounting issue on infrastructure assets has progressed. Government published a statutory override which came into effect at the end of December 2022. CIPFA are expected to publish their update to the Code of Practice in early January 2023. Once the Council has considered this guidance, additional work will be required by the finance team to determine the adjustments needed to the accounts. Once this is provided, we will carry out our audit work in order to conclude on this area.

Our audit work on the Council's valuation of its share of the land at Manchester Airport, the accounting treatment of its provisions, and its consolidation of its Group financial statements continues. We expect to complete this work in January.

We will report all remaining areas in our final Audit Completion Report at the conclusion of the audit.

# Audit Progress

## **2021/22 work on the Council's arrangements to deliver value for money**

We received the Council's updated self assessment of its arrangements in late November. We are completing our fieldwork on the Council's arrangements for the 2021/22 financial year, and intend to report the findings from our work on the Council's value for money arrangement in our final Audit Completion Report.

There are no matters arising from the fieldwork completed to date to report to the Committee.

## **2022/23 audit**

We will commence our planning for the audit of the 2022/23 financial statements and value for money arrangements at the conclusion of the 2021/22 audit. 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. We will liaise with the finance team and will include further details in our formal 2022/23 audit reports.

# 02

Section 02:

**National Publications**

# National publications

	Publication/update	Key points
<b>Financial Reporting Council (FRC)</b>		
1	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
2	Insourcing in the Public Sector: A Practical Guide (2022 edition)	Guidance for practitioners
<b>Public Sector Audit Appointments Ltd</b>		
3	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies
4	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).

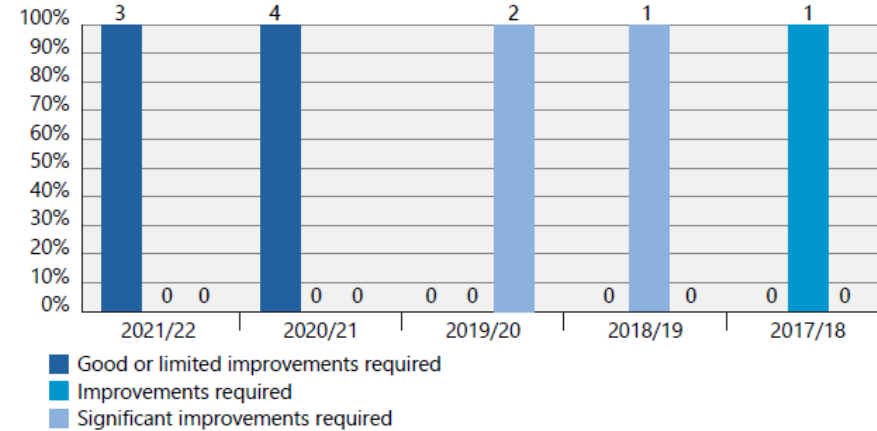
For Mazars, the FRC found that all 3 files reviewed met the expected standards. This was the second successive year of 100% compliance. Whilst the sample size is small and focused on the higher risk audits, the improvement does reflect the investment we have made in people, technical expertise, specialists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

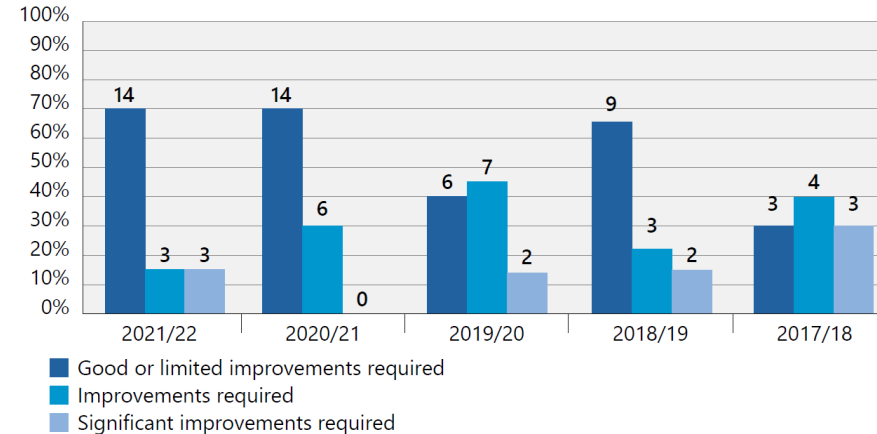
#### Our assessment of the quality of financial statement audits reviewed



**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. Insourcing in the Public Sector: A Practical Guide (2022 edition), December 2022**

The guide is an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in. In recent times, several outsourced arrangements have failed due to poor quality and unreliability of providers. It is important to note that while insourcing does not require a public body to run a full procurement process, it still needs to follow a process and undertake key steps (for example, TUPE and asset transfer) and is equally reliant on the public body having expert and skilled personnel to manage this.

This practical guide will support public sector practitioners in understanding key areas to focus on when considering insourcing as part of future delivery models.

<https://www.cipfa.org/policy-and-guidance/publications/i/insourcing-in-the-public-sector-a-practical-guide-2022-edition>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 3. 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/>

### 4. 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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