

Audit Progress Report

Selby District Council

Audit and Governance Committee March 2023



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01

Section 01:
Audit Progress

1. Audit progress

Purpose of this report

This report provides the Audit and Governance 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

The National Audit Office has issued its auditor instructions for the 2020/21 Whole of Government Accounts process and we will be submitting the required auditor's return shortly. NAO has not yet communicated the arrangements for the sample of authorities where they require additional audit procedures to be carried out. The Audit Certificate will be issued, and the audit formally closed, when NAO has confirmed their requirements and any further requested work has been completed.

2021/22 Audit

The position on the key elements of the 2021/22 audit is summarised below:

- **Financial Statements audit** – Our audit completion report was presented at October's Committee meeting and our follow up letter was issued on 30 November 2022. The audit report on the financial statements was issued on 30 November 2022.
- **Value for Money arrangements** - We presented our commentary in respect of the Council's arrangements to the January meeting of the Audit and Governance Committee via our Auditor's Annual Report.
- **Assurance work** – the Council engage us to carry out the assurance work in respect of housing benefit subsidy. This work has been completed and we issued our Reporting Accountants Report to the DWP on 3 March 2023.
- **Whole of Government Accounts** – the NAO has not yet issued its auditor instructions for 2021/22. We will carry out the work required when the instructions have been received and update the Committee at future meetings

1. Audit progress (continued)

2022/23 Audit

We are updating our risk assessments and completing our planning for the 2022/23 audit. We plan to issue our formal Audit Strategy Memorandum in late July and will continue to update members on progress.

At this stage we do not anticipate any significant changes in the scope of the audit opinion work or the approach. We have confirmed the requirements of the revised ISA 315 which applies to the Council's 2022/23 audit and underpins the work we are required to carryout to identify and assess the risks of material misstatement. This enhanced standard will require additional audit work and it is likely that we will need additional information and responses from the Council's management beyond those asked in previous audits. We have included a short summary of the key points from the revised ISA315 within Section 3 of this report and we will continue to liaise with management on the information required and any impact on our risk assessment.

NAO has confirmed that there are no changes to their requirements for the auditor's value for money commentary on the Council's arrangements for 2022/23.

02

Section 02:

National publications

02 National publications

This section highlights recent national publications that may be of interest to Members of the Committee. If you require any additional information please contact any member of your engagement team.

We have, in the tables on the next two pages, provided a brief insight into the purpose/key points of the publications with indicative relevance and/or suggested action using the following RAG ratings:

- Action required
- Action suggested
- For information only.

Audit progress

National publications

Revised ISA 315

National publications

	Publication/update	Key points	RAG rating
Financial Report Council (FRC)			
1	FRC Major Local Audit Inspection Report (October 2022)	Outcome of the FRC inspection of audit quality from 2020/21 audits	●
Chartered Institute of Public Finance and Accountability (CIPFA)			
2	CIPFA : Audit Committees Practical Guidance for local authorities and police (October 2022)	Guidance and resources for audit committee members.	●
3	Insourcing in the Public Sector: A Practical Guide (2022 edition) (December 2022)	Guidance for practitioners	●
4	Update to the Code and Specifications for future Codes for Infrastructure Assets and CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution (January 2023)	<p>An update to the 2021/22 Code, which also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code.</p> <p>The bulletin covers the issues to be considered regarding the temporary solution set out in the Code update and the amended Regulations for the accounting and reporting issues relating to infrastructure assets</p>	●

National publications

	Publication/update	Key points	RAG rating
Public Audit Forum			
5	Consultation responses to the revised Practice Note 10 (December 2022)	<p>The Public Audit Forum (PAF) oversees the development and publication of the Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom which was revised in 2022.</p> <p>PAF has now published the responses to the consultation and final draft amendments. These amendments were approved by the Financial Reporting Council in November 2022.</p>	●
National Audit Office (NAO)			
6	Guide to Corporate Finance in the Public Sector (September 2022)	The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities	●
7	Government Shared Services (November 2022)	The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver.	●
8	Departmental Overview 2021-22 (December 2022)	The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021-22	●
9	Progress Update: Timeliness of local auditor reporting on local government in England (January 2023)	The NAO published its report Progress update: Timeliness of local auditor reporting on local government in England which provides an update on developments.	●

National publications

	Publication/update	Key points	RAG rating
Public Sector Audit Appointments Ltd (PSAA)			
10	Publication of the 2022/23 fee scale (November 2022)	External audit fees for 2022/23	●
11	Directory of Auditor Appointments from 2023/24 (December 2022)	Auditor appointments for PSAA opted-in bodies	●
12	PSAA announces the number of audit opinions completed for the 2021/22 audits (December 2022)	PSAA has published this year's position on delayed audit opinions.	●
Department for Levelling Up, Housing and Communities			
13	Technical consultation on consequential changes to the homelessness legislation (December 2022)	This consultation aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.	●
14	Local government finance policy statement 2023-24 to 2024-25 (December 2022)	The policy statement sets out the government's intentions for the local government finance settlement for the next 2 years.	●
15	The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (December 2022)	These amended Regulations provide local authorities with the temporary statutory override option to allow them to progress and resolve any issues relating to their accounting for Infrastructure Assets.	●

National publications

	Publication/update	Key points	RAG rating
Local Government Association (LGA)			
16	The role of councils in tackling digital exclusion (February 2023)	The Local Government Association commissioned DMS Research & Consulting to explore the links between various types of disadvantage and the availability and usage of digital infrastructure, and to consider the role of councils in tackling digital exclusion.	●
17	Local government finance capacity and capability study (February 2023)	As part a sector support programme funded by the Department of Levelling Up, Housing and Communities (DLUHC), the LGA commissioned Local Partnerships to undertake research into capacity and capability in local government finance. The aim is that this report will support councils in understanding the pressures and challenges finance teams are facing, and the actions they can take.	●

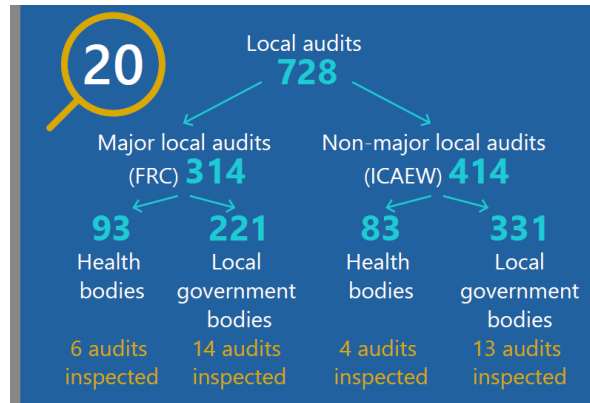
NATIONAL PUBLICATIONS

Financial Reporting Council

1. FRC Major Local Audit Inspection Report - October 2022

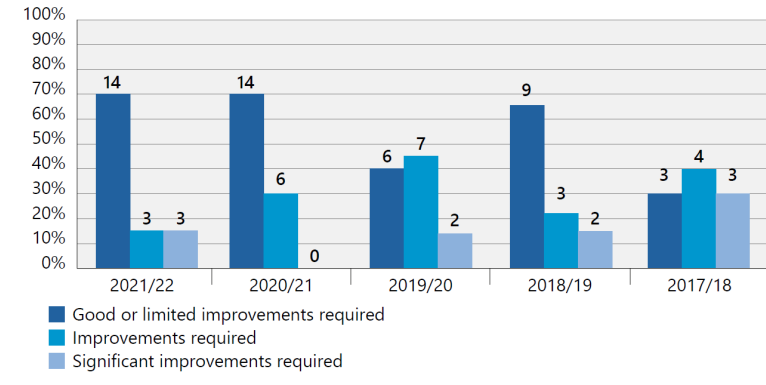
The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported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

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

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>

3. 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

CIPFA

4. Update to the Code and Specifications for future Codes for Infrastructure Assets (November 2022), and CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution (January 2023)

This November 2022 publication is an Update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code, though these specifications will also be included in the 2023/24 and 2024/25 Codes for completeness. This Update to the Code and future specifications for the Code must therefore be considered against these editions of the Code, or where necessary earlier editions.

<https://www.cipfa.org/-/media/files/policy-and-guidance/cipfa-lasaac/ifrs-based-code-update-infrastructure-assets.pdf>

The January 2023 CIPFA Bulletin 12 provides further practical guidance and covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets. The Bulletin takes into account the matters set out in the amended regulations published in December 2022 (see item 15 later in this report). The objective of the bulletin is to provide guidance on the temporary solution for accounting for infrastructure assets, focussing on the reporting of the derecognition provisions where there is replacement expenditure and particularly for highways infrastructure assets

The temporary solution includes the Update to the Code and Specifications for Future Codes for Infrastructure Assets (Update to the Code) from 1 April 2021 to 31 March 2025 which features a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets and the statutory prescriptions from England and Wales and Scotland

The Bulletin also includes guidance on accounting for the pattern of consumption of economic benefits and service potential i.e. depreciation.

The Bulletin includes guidance on materiality, an overview of different elements of the temporary solution, the accounting requirements for derecognition including the statutory prescription, the impact on accounting policies and the reporting requirements for disclosure of gross cost and accumulated depreciation.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-12-accounting-for-infrastructure-assets-temporary-solution>

NATIONAL PUBLICATIONS

Public Audit Forum

5. Consultation on Practice Note 10 (Revised 2022): Summary of Responses and Proposed Amendments – December 2022

The consultation on the exposure draft of the 2022 revision of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10) closed on 16 September 2022 and this document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

Part 1 of PN 10 provides guidance on applying auditing, quality management and ethical standards in the public sector. It is important to consider potential changes to PN 10 in the context of PN 10's status as a Statement of Recommended Practice (SORP): a set of sector-driven recommendations on (in this case) auditing practices for the public sector which guide auditors on how to apply the underlying standards, including International Standards on Auditing (UK) (ISAs (UK)), in the specialised context of the public sector. The PAF has no role in determining the principles or requirements which are included in the ISAs (UK). The PAF also has no direct role in setting the financial reporting frameworks for public sector entities (although member bodies of the PAF maintain dialogue with the framework setters).

As set out in the summary of responses included in the report, respondents commented on a range of issues faced by auditors of public sector entities. By far the most-cited issue was the current situation in local audit in England and current delays in completing audits of local authorities. A number of respondents suggested various ways in which the consultation draft of PN 10 might be amended so as to ameliorate some of these issues by reducing the audit effort in particular areas. There were suggestions that the proposed changes to the guidance on applying ISA (UK) 320 Materiality in planning and performing an audit may have a significant impact on local auditors' approach to materiality judgements.

<https://www.public-audit-forum.org.uk/wp-content/uploads/2022/12/Practice-Note-10-Consultation-Response-2022.pdf>

NATIONAL PUBLICATIONS

National Audit Office

6. 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/>

7. Government shared services – November 2022

The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One)
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three)

The report concludes the government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence.

The reports highlights concerns that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. The NAO, therefore, cannot conclude that this programme is on track to demonstrate value for money.

<https://www.nao.org.uk/reports/government-shared-services/#downloads>

NATIONAL PUBLICATIONS

National Audit Office

8. Departmental Overview 2021-22: Department for Levelling Up, Housing & Communities - December 2022

The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021-22. DLUHC spends nearly £38 billion each year to support economic growth and housing across the country, in collaboration with local authorities. It has overall responsibility in central government for local authorities' funding. Along with other bodies, DLUHC oversees the core accountability system for local authorities.

The guide summarises the key information and insights that can be gained from the NAO's examinations of DLUHC and related bodies in the sector in England, and DLUHC's Annual Report and Accounts.

<https://www.nao.org.uk/overviews/departmental-overview-2021-22-department-for-levelling-up-housing-communities/>

9. Progress update: Timeliness of local auditor reporting on local government in England January 2023

Local government audit provides transparency and accountability to both taxpayers and their local elected representatives. It provides authorities with accurate and reliable financial information with which to plan and manage their services, and finances, effectively. It also provides assurance to the wider public sector, supporting the audit of certain central government departments and the Whole of Government Accounts.

The arrangements for local audit in England changed significantly following the abolition of the Audit Commission in 2015. From 2018-19, local government bodies appointed private firms to undertake their audits, either directly or through a national scheme. Other responsibilities for regulation and standard setting were spread across multiple organisations. The Department for Levelling Up, Housing & Communities (DLUHC) also sought to compress the timetable for accounts production and audit from 2017-18, to increase public interest in local accounts and encourage more rigorous in-year monitoring.

Since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. We first reported on this in 2021, when 45% of accounts for 2019-20 were published by the deadline, down from 97% in 2015-16. This report provides an update on developments.

<https://www.nao.org.uk/reports/progress-update-timeliness-of-local-auditor-reporting-on-local-government-in-england/>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

10. News release: 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 fee scale applies for the audit work to be undertaken by appointed auditors in respect of the 2022/23 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements for the period 2018/19 to 2022/23.

Auditors will undertake their work under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Under the Local Audit (Appointing Person) Regulations 2015, the 2022/23 fee scale must be published by 30 November 2022 and cannot be amended after that date. Any subsequent changes in national requirements or local circumstances relating to the 2022/23 audits will therefore be the subject of fee variations.

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 will consult on the fee scale for the 2023/24 audit in early autumn 2023.

<https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

11. Directory of Auditor Appointments from 2023/24 – December 2022

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The Board agreed the appointments at its meeting on 16 December 2022.

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

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

12. PSAA announces the number of audit opinions completed for the 2021/22 audits – December 2022

This year's position on delayed audit opinions underscores the scale of the huge challenge that local audit is facing. At the publishing date of 30 November 2022, only 12% of local government bodies' 2021/22 audit opinions have been given. Although this is slightly higher than last year's 9%, this year's publishing date is two months later than the 30 September target for delivery of 2020/21 opinions.

The table below highlights a comparison with previous years.

Year of Account	Publishing Date	Opinions given at the publishing date
2021/22	30 November 2022	12%
2020/21	30 September 2021	9%
2019/20	30 November 2020	45%
2018/19	31 July 2019	57%

What makes the latest position increasingly alarming is that more than 220 opinions from prior years remain outstanding. As opinions have been given at fewer than 60 bodies for 2021/22, this means that a total of more than 630 opinions are currently late. This year the position has been made more difficult by uncertainties concerning the valuation of infrastructure assets, adding to significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.

<https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

13. Technical Consultation on Consequential changes to the homelessness legislation – December 2022

This consultation seeks views on the consequential amendments to homelessness legislation as a result of the Renters Reform Bill, namely, the removal of section 21 evictions, assured shorthold tenancies and fixed-term tenancies and aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.

The scope of the consultation is limited to responses on the legislative technical amendments. The majority of the amendments to the legislation are minor and, while the consultation is open to everyone, most responses are expected to be from local authorities and charities in the homelessness space.

The consultation will run for 7 weeks.

<https://www.gov.uk/government/consultations/technical-consultation-on-consequential-changes-to-the-homelessness-legislation/technical-consultation-on-consequential-changes-to-the-homelessness-legislation>

14. Local government finance policy statement 2023-24 to 2024-25 – December 2022

The local government finance policy statement sets out the government's intentions for the local government finance settlement for the next 2 years, providing councils with greater certainty on key aspects of their funding to inform their budget setting process and help them to plan for the future.

For the core settlement the Business Rates Multiplier for 2023-24 will be frozen at 49.9p and Revenue Support Grant (RSG) will increase in line with CPI.

For council tax the bespoke council tax referendum principle of up to 3% or £5, whichever is higher, for shire districts remains.

In respect of the remaining settlement grants, the Rural Services Delivery Grant will remain unchanged, in recognition of the inflationary pressures across the sector the Lower Tier Services Grant will be repurposed along with a proportion of the expired New Homes Bonus legacy payments to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and council tax levels. There will also be new rounds of New Homes Bonus (NHB) payments in 2023-24.

These proposals are subject to consultation which will last for 4 weeks from 19 December 2022 to 16 January 2023.

<https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25/local-government-finance-policy-statement-2023-24-to-2024-25>

15. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 – December 2022

These amended regulations came into force 25 December 2022. New regulation 30M (3) provides that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). Regulation 30M applies to statements of accounts for financial years beginning on or before 1 April 2024, and to those statements of accounts that have not already been certified by a local auditor. The accompanying explanatory memorandum sets out the government's expectation in interpreting the statutory provision which is that where local authorities determine the carrying amount to be derecognised at nil value, no further evidence is required to support this. The government has indicated that 'determination' should be interpreted as a choice by an authority. As set out in the Local Government Act 2003 S.21 (3), where there is conflict between accounting practices specified in regulations and those in Code, the practices in regulations take precedent. The government has indicated that the intent of the Regulations and the Update to the Code is to mitigate the risks of further audit delays or the qualification of accounts due to issues relating to infrastructure assets, as described.

<https://www.legislation.gov.uk/uksi/2022/1232/introduction/made>

NATIONAL PUBLICATIONS

Local Government Association (LGA)

16 . The role of councils in tackling digital exclusion

Digital exclusion remains an important issue for many local communities and a priority for councils to help residents overcome. This study explores the correlations between thousands of pairs of connectivity and socio-economic variables and how connectivity has changed over time – for example by rural urban classification and in terms of the distribution across output areas and/or council areas.

<https://www.local.gov.uk/publications/role-councils-tackling-digital-exclusion>

17 . Local government finance capacity and capability study

The issues facing local government finance functions are not unique in terms of recruiting and retaining staff and dealing with the consequences that the COVID-19 pandemic, the cost of living, and economic contraction, are having on their organisations.

There are changes which can be made that will help alleviate some of the current problems over the longer term and collaboration on certain aspects such as sharing sought-after skills and aligning practices on flexible working and market supplements that may help some recruitment and retention issues in the short term.

There are also opportunities for Government and other external bodies to help in terms of alleviating some workload pressures, specifically relating to financial reporting, external audit and grant administration.

However, sufficiency of funding underpins the findings and recommendations and, until that problem is addressed, then it is difficult to see how the growing risks of financial failure across councils, as a result of capacity and capability issues, recede.

<https://www.local.gov.uk/publications/local-government-finance-capacity-and-capability-study>

03

Section 03:

Revised ISA 315

2. 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 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?

2. Revised ISA 315

Consideration of account balances and assessing inherent risks

Under the revised ISA 315 we will make an assessment of the inherent risks associated with the Council's transactions, balances and disclosures. We then determine whether each transaction, balance and disclosure is a 'significant account' (i.e. a significant class of transactions, balances and disclosures) and identify the assertions that are relevant. We then consider the controls the Council has in place and conclude whether or not we consider the audit risk associated to each item is significant, i.e. after taking into account the controls in place is there a significant risk of material misstatement in relation to the relevant assertion. In addition, the revised ISA requires auditors to document more closely the key business process associated with each significant account with a focus on the processes for how transactions are initiated, recorded, processed, and incorporated into the general ledger.

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.

Increased focus on controls

In addition to the above, 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 although we will need to update our assessment following the financial system changes in 2022/23. 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.

Contact

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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.

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