

# CIPFA Local Authority Audit

Examination of ISA 260 Reports for the  
2019/20 financial year

## Agenda

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Reason for the research

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Objectives of the research

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Findings of the research

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Conclusions and key messages

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Annex

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Methodology used for the research



# Reasons for the research

There is increasing evidence of delays in local authority audits of accounts

- The NAO [Timeliness of local auditor reporting on local government in England, 2020](#) report
- Public Accounts Committee [Local auditor reporting on local government in England](#) report

Commented on by Government's Financial Reporting Advisory Board

- Were there mechanisms to identify any specific reporting issues?
- What might they be?

NAO Report considered that there were a number of reasons:

- Increasing workload and pressures of regulation
- Limited availability of enough finance and audit staff with relevant qualifications, skills and experiences
- Management of audit work
- COVID-19

Commentary about the quality of accounts

- Can lessons be learned from positive or negative comments?

# Objectives of the research

To consider whether there was evidence for where resources were being committed during the audit and whether CIPFA might be able to assist in any areas.

The research would therefore consider for 2019/20 accounts:

1. whether the audit opinion on the statement of accounts was signed on or before the publication date and the audit was certified as complete or if it is not complete whether there is a statement on the local authority's website indicating why it has not been completed?
2. to review audit opinion sign-off dates for 2020/21 to see whether there is any evidence of improving performance
3. if the ISA 260 report is published and/or accessible on the local authority website?
4. if it is published whether it includes any commentary (either positive or negative) about the quality of the financial statements?
5. whether the authority's ISA 260 report identifies any significant financial control/reporting issues?
6. what adjustments have been agreed with management, the number, amount, and rationale for them?

# Findings

(Note the findings apply to 2019/20 year unless stated otherwise)

# Findings from the research



Statistics



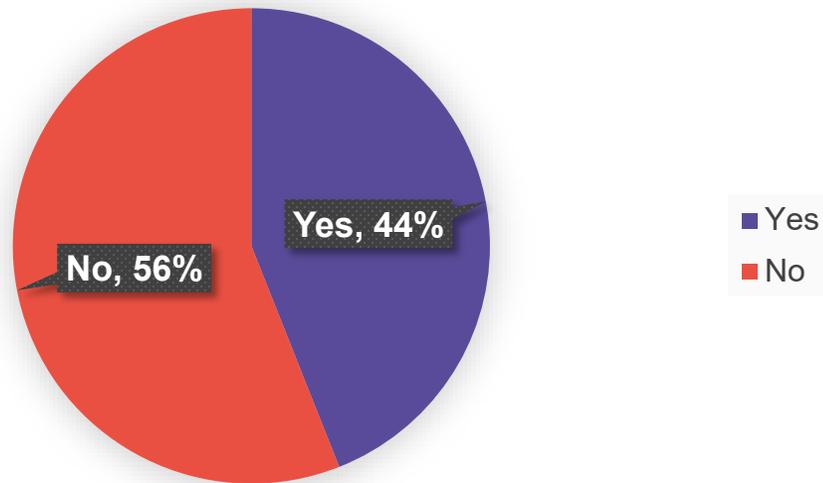
Quality of financial statements



Adjustments

# Was the Opinion on the Statement of Accounts Provided by the Statutory Publication Date?

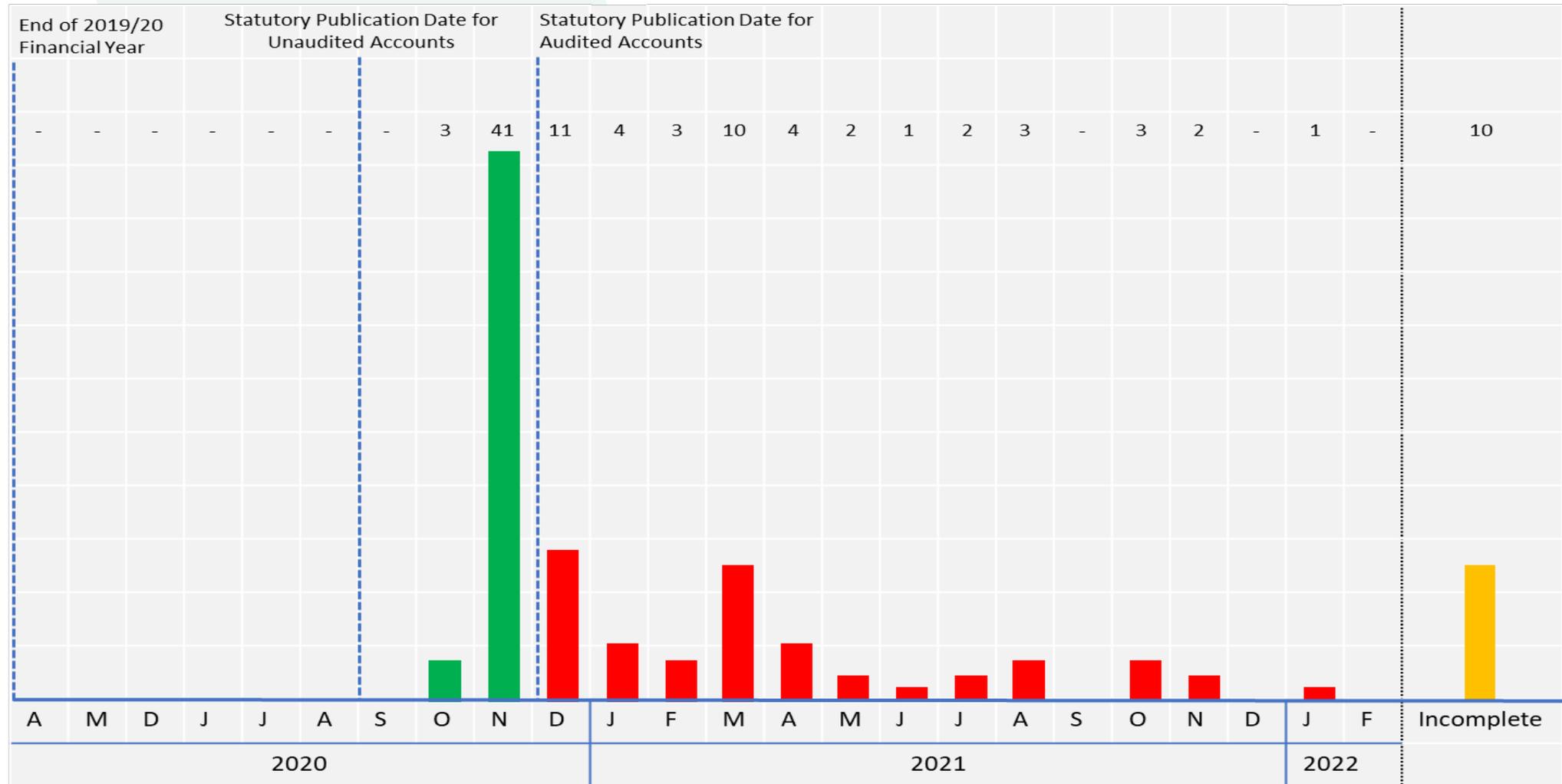
**Number of local authorities where the opinion is given before the publication deadline (100)**



| Expenditure Ranges (£'m) | Yes       | No        | Total      |
|--------------------------|-----------|-----------|------------|
| 0 – 100                  | 26        | 30        | 56         |
| 100 – 200                | 2         | 3         | 5          |
| 200 – 300                | 3         | 8         | 11         |
| 300 – 400                | 2         | 4         | 6          |
| 400 – 500                | 4         | 3         | 7          |
| 500 – 600                | 1         | 3         | 4          |
| 600 – 700                | 3         | 1         | 4          |
| >700                     | 3         | 4         | 7          |
| <b>Grand Total</b>       | <b>44</b> | <b>56</b> | <b>100</b> |

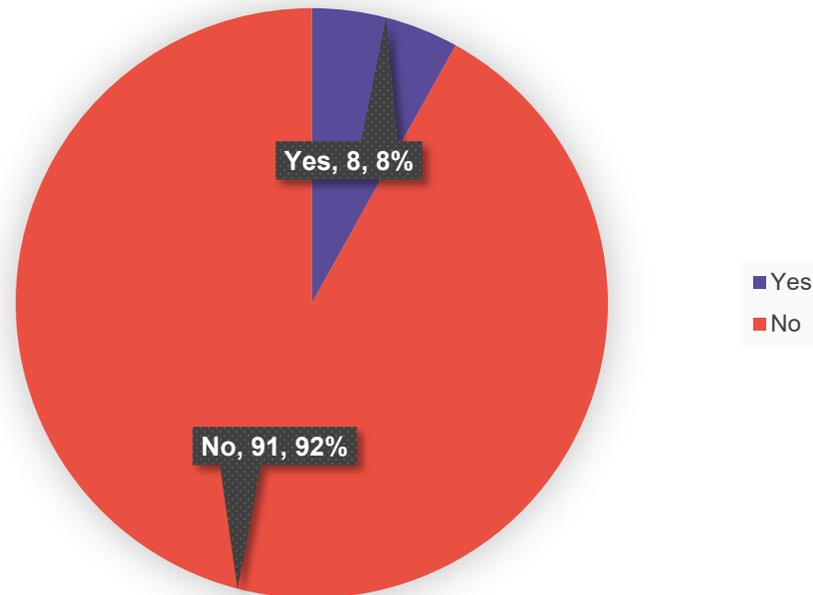
# When Was the Opinion on the Statement of Accounts Provided for 2019/20?

Progress in Publication of Audited 2019/20 Statements of Account (to 31 Jan 2022)



# When Was the Opinion on the Statement of Accounts Provided for 2020/21?

Number of local authorities where the audit process is completed on the deadline (99) 2020/21

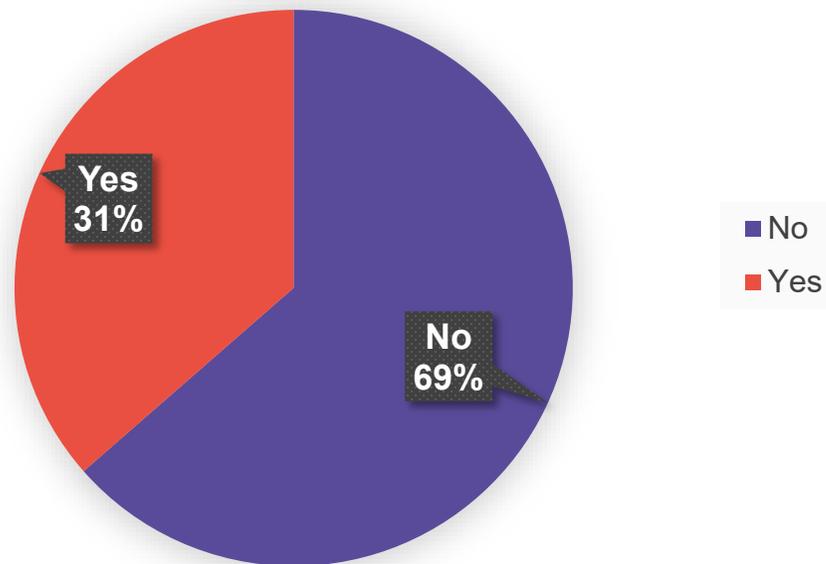


| Expenditure Ranges (£'m) | Yes      | No        | Total      |
|--------------------------|----------|-----------|------------|
| 0 – 100                  | 3        | 52        | 55         |
| 100 – 200                | 1        | 4         | 5          |
| 200 – 300                | 0        | 11        | 11         |
| 300 – 400                | 1        | 5         | 6          |
| 400 – 500                | 0        | 7         | 7          |
| 500 – 600                | 0        | 4         | 4          |
| 600 – 700                | 0        | 4         | 4          |
| >700                     | 3        | 4         | 7          |
| <b>Grand Total</b>       | <b>8</b> | <b>91</b> | <b>99*</b> |

\*There is a “missing authority” – the audited accounts are published, but the audit opinion is undated

# Was the Audit Complete by the Publication Date?

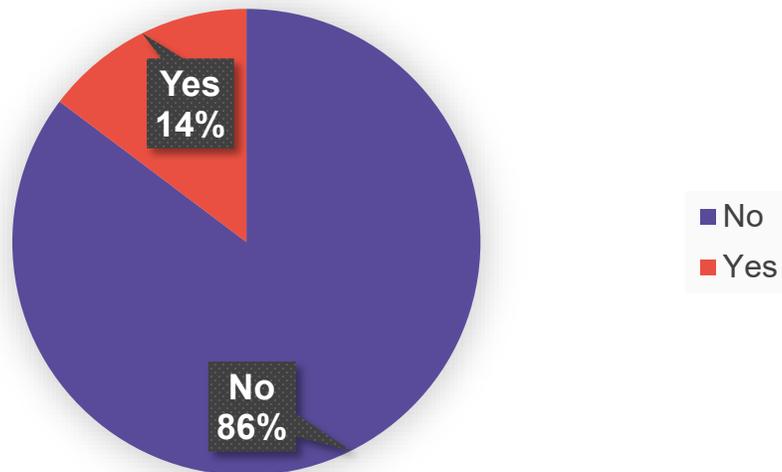
**Count of Audit Being Completed by the deadline?**



| Expenditure Ranges (£'m) | No        | Yes       | Total      |
|--------------------------|-----------|-----------|------------|
| 0 – 100                  | 30        | 26        | 56         |
| 100 – 200                | 4         | 1         | 5          |
| 200 – 300                | 10        | 1         | 11         |
| 300 – 400                | 5         | 1         | 6          |
| 400 – 500                | 7         |           | 7          |
| 500 – 600                | 4         |           | 4          |
| 600 – 700                | 3         | 1         | 4          |
| >700                     | 6         | 1         | 7          |
| <b>Grand Total</b>       | <b>69</b> | <b>31</b> | <b>100</b> |

# Is there a Statement Indicating Why the **Audit** has not been **Completed**?

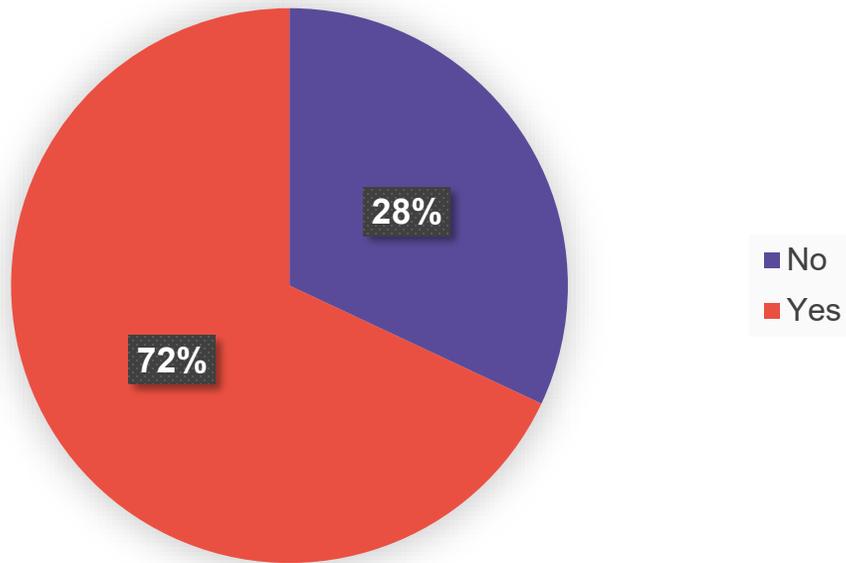
Is there a statement indicating why the audit has not been completed?  
(69/100)



| Expenditure Ranges (£'m) | No        | Yes       | Total     |
|--------------------------|-----------|-----------|-----------|
| 0 – 100                  | 25        | 5         | 30        |
| 100 – 200                | 4         |           | 4         |
| 200 – 300                | 8         | 2         | 10        |
| 300 – 400                | 5         |           | 5         |
| 400 – 500                | 6         | 1         | 7         |
| 500 – 600                | 4         |           | 4         |
| 600 – 700                | 3         |           | 3         |
| >700                     | 4         | 2         | 5         |
| <b>Grand Total</b>       | <b>59</b> | <b>10</b> | <b>69</b> |

# Is the ISA 260 Report Available on the Local Authority's Website?

Is the ISA 260 report available on the local authority website?

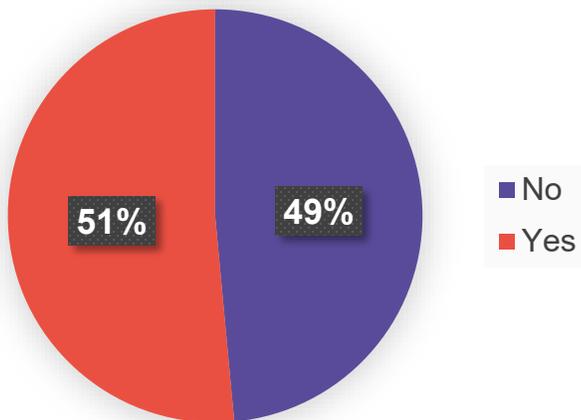


| Expenditure Ranges (£'000) | No        | Yes       | Total      |
|----------------------------|-----------|-----------|------------|
| 0 – 100                    | 14        | 42        | 56         |
| 100 – 200                  | 2         | 3         | 5          |
| 200 – 300                  | 4         | 7         | 11         |
| 300 – 400                  |           | 6         | 6          |
| 400 – 500                  | 4         | 3         | 7          |
| 500 – 600                  | 2         | 2         | 4          |
| 600 – 700                  |           | 4         | 4          |
| >700                       | 2         | 5         | 7          |
| <b>Grand Total</b>         | <b>28</b> | <b>72</b> | <b>100</b> |

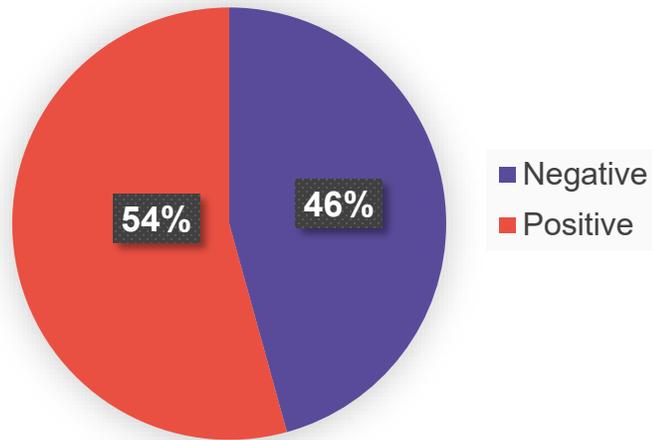
\*Note though for 10 of those authorities the opinion had not yet been provided.

# Does it Include any Commentary (either Positive or Negative) about the Quality of the Financial Statements ?

Does it include any commentary (either positive or negative) about the quality of the financial statements (72/100)



Percentage of Negative/Positive commentary(35/72)



| Expenditure Ranges (£'m) | Negative  | Positive  | Total     |
|--------------------------|-----------|-----------|-----------|
| 0 – 100                  | 9         | 13        | 22        |
| 100 – 200                | 1         | 1         | 2         |
| 200 – 300                | 2         |           | 2         |
| 300 – 400                | 1         | 1         | 2         |
| 400 – 500                | 2         |           | 2         |
| 500 – 600                | 1         |           | 1         |
| 600 – 700                |           | 1         | 1         |
| >700                     |           | 3         | 3         |
| <b>Grand Total</b>       | <b>16</b> | <b>19</b> | <b>35</b> |

# Positive Comments

Finance team worked extremely well in supporting external audit process

A good set of working papers and draft financial statements according to timescale

Complex financial statements produced to a very high standard

Significant improvement in the year end account close down

Improvement in financial statement and working paper quality

Improvement in valuation process relative to last year

Responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable

Improvement in the process of financial statement preparation, appropriate disclosure of the business model and strategy and risk arising from Brexit

Appropriately disclose measurement uncertainty

# Negative Comments

Property plant and equipment valuation issue/delay due to quality of information provided by valuer/lack of evidence for valuation calculation

Incomplete lease record to reflect the correct level of rental

Poor working papers

Intellectual property valuation issues

Difference in pension calculation amount due to arithmetic error within valuation certificate

Misstatements in the financial statements due to lack of reconciliation in the valuer's report to the fixed asset register

Manual adjusting entries to reconcile the trial balance and accounts

High turnover within finance team – lack of experience in accounts closedown and preparation – no permanent chief accountant

Incorrect elimination of inter-company balances – completeness of disclosures – management have recorded a *prior period adjustment* in the financial statement to correct the valuation

Debtors overstated

# Examples of LA comments on the Delay from the Local Authority's Website -1

## LA10

The external audit of the draft statement of accounts for the year ending 31 March 2020 has not yet been completed by our external auditors, Auditor 3, due to the on-going investigation affecting the Annual Governance Statement.

This situation is allowed by Regulation 10, paragraph (2) of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404. For more information, visit [legislation.gov.uk - Accounts and audit regulations 2015](https://legislation.gov.uk/uk/2015/1000/2020/1000) and [Legislation.gov.uk - The Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020](https://legislation.gov.uk/uk/2020/404/2020/404).

This notification, as per Regulation 10 paragraph (2), that the Council is not yet able to publish the audited 2019/20 final statement of accounts in line with publication date of 30 September 2020, as per paragraph (1).

## LA21

The external audit of the draft statement of accounts for the year ended 31 March 2021 has not yet been completed by our external auditors, Auditor 2, due to our resources being focused on the response to the Covid-19 pandemic and delays in completing the 2019/20 final statement of accounts has had an impact on LA21 staff preparing the 2020/21 statement of accounts as well as the external auditors being available to audit the statement of accounts before the 30th September 2021.

## LA22

The Statement of Accounts give electors, local taxpayers, members of the Council, employees and other interested parties comprehensive information about the Council's finances. The unaudited accounts are usually required to be published by the 31 May each year, they are then audited by Auditor 1 and the audited accounts, together with the Auditor's report, are published by 31 July.

However, due to the current Coronavirus crisis the Accounts and Audit Regulations 2015 have been amended to extend the publication dates for the unaudited Statement of Accounts and the ensuing public inspection and audit periods. The new deadline for the publication of unaudited Statement of Accounts was 31 August 2020 and the external audit should be completed by 30 November 2020. The audited Accounts were authorised for issue by the Director of Finance and published on 27 November 2020

# Examples of LA comments on the Delay from the Local Authority's Website - 2

## **LA26**

The external audit of the draft statement of accounts for the year ended 31 March 2020 has not yet been completed by our external auditors, Auditor 2, due to resources pressures. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404.

The external audit of the draft statement of accounts for the year ended 31 March 2021 has not yet been completed by our external auditors, Auditor 2, due to the 19/20 financial year audit still ongoing. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015.

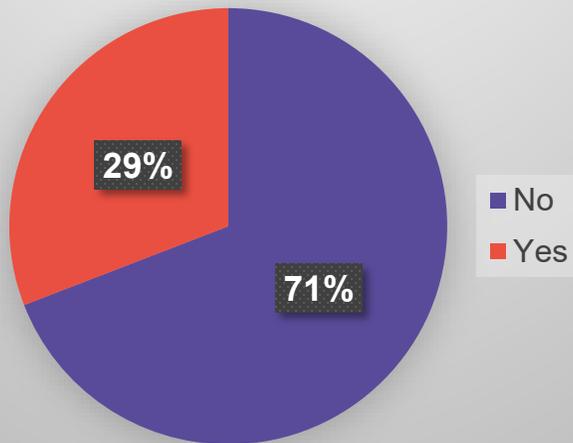
## **LA27**

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 require that the audited 2019/20 accounts and related audit opinion are published by 30th November 2020. As at 30th September 2021, the council's external auditor, Auditor 1, has not yet completed the audit, so the 2019/20 Statement of Accounts published below is the original unaudited version published on 3rd August 2020. When the audit opinion is issued, the audited and approved accounts will be published on this page as soon as practicable.

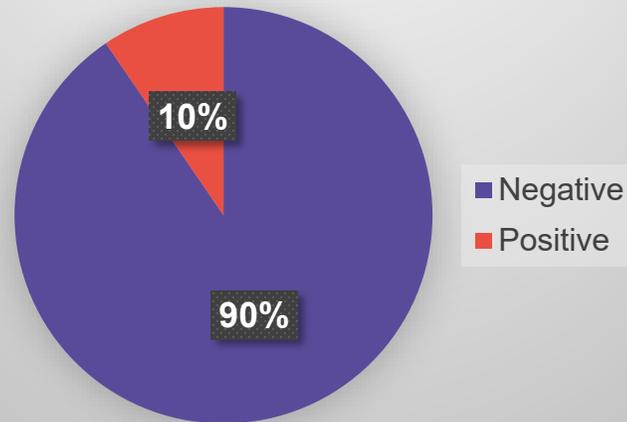
The auditors issue a final certificate of completion of the audit separately which is published here online when available, together with a public notice explaining the rights of local electors to inspect the accounts and audit opinion/certificate.

# Does the authority's ISA 260 report identify any significant financial control/reporting issues?

Does the authority's ISA 260 report identify any significant financial control/reporting issues?(72/100)



Percentage of Negative/Positive commentary(21/72)



| Expenditure Ranges (£'000) | Negative  | Positive | Total     |
|----------------------------|-----------|----------|-----------|
| 0 – 100                    | 9         | 1        | 10        |
| 100 – 200                  | 1         |          | 1         |
| 200 – 300                  | 2         |          | 2         |
| 300 – 400                  | 3         |          | 3         |
| 400 – 500                  | 2         |          | 2         |
| 500 – 600                  | 1         |          | 1         |
| 600 – 700                  | 1         |          | 1         |
| >700                       |           | 1        | 1         |
| <b>Grand Total</b>         | <b>19</b> | <b>2</b> | <b>21</b> |

# Examples of Negative Comments about any Significant Financial Controls/Reporting from the ISA 260 Reports

## Procedures

- **Debtors** old balances dating as far back as 2006.
- Risk of leavers being paid after they have left the Authority's employment.
- Lack of challenge by the Authority over the **completeness and accuracy of the invoices** prior to their authorisation
- The Council's internal auditors have reported that the Council did not follow its **procurement procedures** with regard to the a leisure contract, gas and electricity contracts.
- No preventative control in place around **journals authorisation**. All journals can be posted and authorised by the same person. There is only a retrospective review of all journals over certain amount that occurs quarterly.

## Reconciliation

- Reconciliations between the **payroll system** and the general ledger were not being performed on a timely basis.
- Lack of timely reconciliations between **the housing benefits** system and the general ledger
- The **bank reconciliation** process used by the Council is complex, involving a series of manual amendments some of which are significant in value, and lack of clearing bank open items.
- Misstatements in **the related party transactions** disclosures resulting from incomplete declarations of interest being submitted by Councillors.

## Examples of Negative Comments about any Significant Financial Controls/Reporting from the ISA 260 Reports

### **Fixed Assets Register (FAR)**

- The fixed asset register (FAR) is complex and does not include all relevant property, plant and equipment movements.
- The Council and valuer were unable to provide the original source data used in the revaluation of a sample of other land and buildings assets.
- There were several assets listed within the council dwellings category which were inappropriately listed
- There is not a comprehensive database and significant deficiency in controls for maintaining complete and accurate asset data.

## Examples of Positive Comments about any Significant Financial Controls/Reporting from the ISA 260 Reports

- We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.
- From the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

# Adjustments

# Adjustments Analysis by Source and Nature

## Adjustments:

|   |    |            |
|---|----|------------|
| <b>Misclassification and disclosure changes</b> |    | <b>259</b> |
| <b>Adjusted misstatements</b>                   |    |            |
| PPE valuation                                   | 35 |            |
| Debtors   | 17 |            |
| Creditors                                       | 12 |            |
| Reserves  | 6  |            |
| Impairment of investment                        | 5  |            |
| Pension   | 4  |            |
| Grant Income                                    | 3  |            |
| Others  | 22 | <b>104</b> |
| <b>Total Adjustments</b>                        |    | <b>363</b> |

## Adjustments Split by Type (Disclosure or Transaction)

| Expenditure Ranges (£'m) | No. of LA | Total Adjustments (1+2) | Total Disclosure (1) | Total Transactions (2) |
|--------------------------|-----------|-------------------------|----------------------|------------------------|
| 0 – 100                  | 18        | 178                     | 137                  | 50                     |
| 100 – 200                | 1         | 2                       | 2                    | 0                      |
| 200 – 300                | 5         | 38                      | 24                   | 14                     |
| 300 – 400                | 4         | 74                      | 53                   | 21                     |
| 400 – 500                | 3         | 13                      | 10                   | 3                      |
| 500 – 600                | 1         | 26                      | 16                   | 10                     |
| 600 – 700                | 1         | 4                       | 2                    | 2                      |
| >700                     | 3         | 19                      | 15                   | 4                      |
| <b>Total</b>             | <b>36</b> | <b>363</b>              | <b>259</b>           | <b>104</b>             |

# Adjustments - Transactions

| Expenditure Ranges (£'m) | No of adjustments | PPE valuation | Creditors | Debtors   | Reserves | Impairment of investment | Pension  | Others    |
|--------------------------|-------------------|---------------|-----------|-----------|----------|--------------------------|----------|-----------|
| 0 – 100                  | 49                | 23            | 8         | 8         | 2        | 4                        | 2        | 3         |
| 100 – 200                | 0                 |               |           |           |          |                          |          |           |
| 200 – 300                | 14                | 9             |           | 1         |          | 0                        | 1        | 3         |
| 300 – 400                | 21                | 2             | 2         | 6         |          |                          |          | 11        |
| 400 – 500                | 3                 | 1             |           |           | 1        |                          |          | 1         |
| 500 – 600                | 10                |               | 1         |           | 1        |                          |          | 8         |
| 600 – 700                | 2                 |               |           | 1         |          |                          |          | 1         |
| >700                     | 5                 |               |           | 1         |          |                          | 1        | 2         |
| <b>Total</b>             | <b>104</b>        | <b>35</b>     | <b>11</b> | <b>17</b> | <b>4</b> | <b>4</b>                 | <b>4</b> | <b>29</b> |

# Adjustments - Limitation of Information

Some local authority ISA 260 reports did not disclose misstatement adjustments

Some local authority ISA 260 reports did not mention that they have any material misstatement adjustments

Some local authority ISA 260 reports did mention that they had material misstatement but management agreed to adjust them without disclosing them in the report

# Summary of Findings - 1

- Audit completion by the publication deadline 56% – compared to 55%\* cited in the NAO report on audit timeliness
- Slow but steady progress to complete audit work – 10% of audited statements yet to be published as at 31 January 2022
- No evidence of improvement for 2021/22 8% by statutory publication date of 30 September 2021 and 22% by 30 November 2021
- Comments on audit quality positive commentaries are lodged but there is noteworthy negative commentary with some very serious concerns
- Internal control position – more negative commentaries than positive with some significant issues raised
- 49% of auditor reports did not include either positive or negative comments.

\*per Public Sector Audit Appointments as reported in the NAO report

## Summary of Findings - 2

- 1) Largest number of adjustments relate to property, plant and equipment.
- 2) By far the most adjustments were in the smallest authorities (49%). Questions arise as to whether this a resource issue from either the authority and/or auditor perspective. [Might this be an argument for differential reporting for some transactions?]
- 3) It is not a perfect exercise (adjustments might have been made during the audit and not recorded)



# Conclusions

The review highlights improvements that could be made by some preparers and auditors. There could be improvements from both groups in communicating issues that are in the public interest

The research evidences that improvements can be made to the financial statements, the information presented therein (disclosures), the quality of information produced and the working papers. It is difficult to be conclusive about the number of adjustments. Not all the ISA 260 reports included information that provide insight into the points raised during the audit process.

Commentary provided by auditors on the audit process, including strengths and weaknesses was not consistently available through the ISA 260 reports

Not all local authorities had current information about delays to accounts and even where this information was provided it is arguable that better communication is needed. It was not clear that all stakeholders understand the requirements of the Accounts and Audit Regulations 2015 that underpin the accounts process, although it is possible that information was provided and subsequently removed.

# Key Messages



Better more accessible information is needed from the audit process (ISA 260 reports and commentary on delay)



Improvements appear to be needed on local authority non-audited financial statements including (very few financial statements described as good)



A programme of training and communication underlining the importance of the audit process to local authorities and their stakeholders in demonstrating accountability is necessary

# Annex

# Methodology

# Methodology for the Research

## Sample

- Random sample of 100 out of 487\* local bodies for the 2019/20 financial year including:
  - Local Authorities (in England)
  - Fire and Rescue Authorities (in England)
  - Police Forces (in England)
- Follow up for the 2020/21 financial year

\*Per NAO Report Timeliness of local auditor reporting on local government in England, 2020

# Methodology for the Research

## Sampling criteria

Size (Annual Expenditure)

Type of authority – 7 Types (Unitary, Metropolitan, District, London, Country, UK Fire and Rescue Service, UK Police Force)

Demographic Location – 7 Regions ( London, North Western Region, North Eastern Region, Yorkshire & Humberside Region, East Midland Region, West Midlands, Eastern Region, South Eastern Region, South Western Region)

| Region                        | Expenditure (£000) |
|-------------------------------|--------------------|
| West Midlands                 | 4,359,166.00       |
| North Western Region          | 4,226,341.00       |
| London                        | 2,799,057.00       |
| North Eastern Region          | 2,556,351.00       |
| Yorkshire & Humberside Region | 2,062,234.00       |
| South Eastern Region          | 1,706,127.00       |
| South Western Region          | 1,566,131.00       |
| Eastern Region                | 1,289,413.00       |
| East Midland Region           | 507,613.00         |

| Type                        | No of LA/Type |
|-----------------------------|---------------|
| District councils           | 51            |
| Unitary authorities         | 19            |
| Metropolitan districts      | 11            |
| London boroughs             | 6             |
| UK Fire and Rescue Services | 5             |
| County councils             | 5             |
| Police Forces               | 3             |

| Region                        | No of LA/Region |
|-------------------------------|-----------------|
| Eastern Region                | 15              |
| West Midlands                 | 13              |
| South Western Region          | 13              |
| East Midland Region           | 12              |
| North Western Region          | 11              |
| South Eastern Region          | 9               |
| North Eastern Region          | 7               |
| Yorkshire & Humberside Region | 6               |
| London                        | 6               |

## Steps to validate reporting dates

- Local audit opinion available?
- ISA 260 Report certificate date by external auditor in **The Annual Audit Letter**
- Local Authority Statement of Accounts and external auditor if certificate paragraph in the **Independent Auditors' Report** is available
- For the publication date of the audited statement of accounts, the date of the opinion in the Independent Auditor's Report