

# Audit Progress Report

Manchester City Council

February 2022



1. Audit Progress
2. National Publications

# 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**

### **2019/20 Whole of Government Accounts (WGA) work**

We received updated submissions from the Council in December 2021. We were able to complete our remaining audit work and we submitted our audit report to the National Audit Office in time for the final deadline on 17 December 2021.

The Council encountered several technical difficulties with the interface with the HM Treasury online 2019/20 WGA submission and subsequent output to allow the evidencing of the trail from the audited financial statements to the submission. This resulted in a delay to the audit process, as agreed finance staff had prioritised the closedown of the 2020/21 financial statements by April 2021. The Council also encountered difficulties and delays in responding to some of our audit queries, due to staffing absences and this led to additional audit work.

We have discussed the impact of the additional audit time with the Council finance officers. The impact on our 2019/20 audit fee is that we have requested an additional £10,000 in line with the PSAA arrangements.

# Audit Progress (continued)

## 2020/21 Financial statements work

Our audit of the Council's financial statements has continued and the number of outstanding areas has been reduced significantly.

There are a number of audit queries and evidence requests which the Council is progressing across a number of account areas. We have continued to maintain a good close liaison with the Council's finance team, and have weekly 'audit queries' meetings to discuss progress and ensure that the finance team are able to chase up outstanding information and responses to questions. The Council has continued to encounter resource challenges in supporting the audit with staff absence impacting on the progress of answering some audit queries.

The most significant area where our work is not complete is in relation to the valuation of Council land & buildings and investment properties.

- The valuation of land & buildings and investment properties is the most significant area of our audit, and has been an increasing focus for the Council and external audit over the past few years. The Council uses three external valuers along with internal Council valuers to produce the valuations. We have continued to progress our work and received responses to our initial queries on our sample of assets being tested from the main valuer from November to January. These responses led to follow up queries responses to which were received by the end of January. Because the valuations are a significant financial value and complexity we have engaged our own valuation expert to assist the audit team, and he is continuing to work through the responses from the Council's valuer. Once this sample testing is complete we will consider the impact on the remaining assets. We will then discuss with Council officers any additional work that is required to obtain assurance that the asset valuations are not materially misstated.

The challenges have resulted in us not concluding our audit by the end of November 2021 as originally planned. We, and the Council, are working towards completing our audit work by March in time for that month's Audit Committee, but the issues and outstanding areas are numerous and complex and there are risks inherent in that timetable. We will continue to liaise weekly with the Council finance team and will advise the Council if it is clear that this timetable is unachievable.

# Audit Progress (continued)

## **2020/21 Value for Money arrangements audit work**

We have previously reported to Audit Committee that the revised NAO Code of Audit Practice has changed our work on the Council's value for money arrangements for 2020/21. We have had regular discussions with Council officers to understand the Council's arrangements, and received supporting evidence and information on the Council's arrangements in January.

We aim to complete our work and report at the same time as we complete and report our work on the financial statements.

## **2020/21 Whole of Government Accounts (WGA) work**

The instructions and timetable for Councils WGA are issued by HM Treasury. The instructions have not yet been issued so the Council has been unable to progress its 2020/21 submission.

Our audit instructions and timetable are issued by the NAO. Again, the instructions have not yet been issued.

The delays to the timetable will place additional pressures on the Council and ourselves.

# 02

Section 02:

**National Publications**

# National Publications

This section highlights the 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 table below, provided a brief insight into the purpose/key points of the publications with indicative relevance and/or suggested action using the following ratings:

- Action required
- Action suggested
- For information only.

	Publication/update	Key points	Action
<b>CIPFA</b>			
1	<b>New Prudential and Treasury Management Codes</b>	These two statutory and professional codes are important regulatory elements of Local Authority's capital finance framework	●
2	<b>Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code</b>	CIPFA published a consultation on emergency proposals for the update of the 2021/22 (and 2022/23) Code. They are aimed at improving the completion rates for publication of audited accounts and include: <ul style="list-style-type: none"> <li>• delaying the implementation of IFRS 16 for at least 1 year; and</li> <li>• allowing for an optional pause of the property revaluation cycle.</li> </ul>	●
<b>Department for Levelling Up, Housing &amp; Communities (DLUHC)</b>			
3	<b>Consultation on changes to the capital framework: Minimum Revenue Provision</b>	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.	●
4	<b>Measures to improve local audit delays and accounts and audit timetable confirmed</b>	DLUHC have announced a new package of measure to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts.	●
<b>National Audit Office (NAO)</b>			
5	<b>The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management</b>	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach.	●



# NATIONAL PUBLICATIONS

## CIPFA

### 1. CIPFA publishes new Prudential and Treasury Management Codes, December 2021

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly in the new year.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes>

# NATIONAL PUBLICATIONS

## CIPFA (continued)

### 2. Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code, February 2022

CIPFA LASAAC has issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The consultation closes on 3 March 2022.

In December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and has issued this exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code. After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- deferring the implementation of IFRS 16 *Leases* for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

The consultation also shows the wide range of options that CIPFA LASAAC considered, which includes some which the board considered were outside of its terms of reference.

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-2022223-codes>

# NATIONAL PUBLICATIONS

## Department for Levelling Up, Housing and Communities

### 3. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

<https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination>

### 4. A new package of measures to support the improved timeliness of local audit, December 2021

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

[https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm\\_medium=email&utm\\_campaign=govuk-notifications&utm\\_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm\\_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues](https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues)

# NATIONAL PUBLICATIONS

## National Audit Office

### 5. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

- This report sets out the facts on:
- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

<https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/>

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