

1 Cwr y Ddinas / 1 Capital Quarter
Caerdydd / Cardiff
CF10 4BZ

To:
Local Government Directors of Finance
Local Government Finance Policy and
Sustainability Division – Welsh
Government
WLGA

Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

[by-email]

Reference: AMH/DO

Date issued: 23 March 2023

Dear colleague

Local Government – Audit of Accounts 2022-23

- 1 We are about to commence our accounts audit work for all LG bodies. We are therefore taking the opportunity to write to you with some important information on the introduction of a revised auditing standard which fundamentally impacts on how we will undertake your 2022-23 audit.
- 2 Within this letter we consider:
 - the impact of the revised standard;
 - the resultant impact on audit fees; and
 - the timetable for the Audit of Accounts 2022-23 and for future years.

The impact of ISA 315

- 3 Our audits of LG accounts for the year ended 31 March 2023 will be carried out under a revised auditing standard ([ISA 315 \(UK\) Identifying and Assessing the Risks of Material Misstatement \(Revised July 2020\)](#)).
- 4 This revised standard is effective for audits of accounts for periods beginning on or after 15 December 2021 and applies to the audit of all private and public sector entities across the UK, regardless of their nature, size or complexity.

- 5 The revised standard will have significant and far-reaching impacts on how auditors undertake audit risk assessments and our overall audit approach.
- 6 In planning our audit, we will be required to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approaches will be responsive to each assessed risk.
- 7 **Appendix 1** outlines the key changes and the potential impact on your organisation in terms of information requests from our audit teams.
- 8 The standard has been amended to drive better quality, more effective risk assessments, as well as to promote greater exercise of professional scepticism. It also requires us to obtain a much more robust understanding of an organisation's IT systems.
- 9 Financial reporting frameworks and governance structures are becoming increasingly more complex while technology continues to play a more advanced role in the control environment of entities. These changes require risk identification and assessment to be enhanced and rigorous audit processes.
- 10 The previous standard did not address automated tools and techniques, which are increasingly being used by auditors to inform risk assessment. Our audits are increasingly incorporating elements of our Analytics Assisted Audit. The revised standard introduces specific considerations relating to the auditors' use of automated tools and techniques.

Impact on audit fees

- 11 As a result of the changes outlined above, we expect 2022-23 audits to take longer to complete. We will also be required to use more experienced CCAB qualified staff on audits to deal with the higher level of judgement necessitated by the standard.
- 12 In our August 2022 Consultation on Fee Scales, we indicated that our initial assessment of the impact of this richer skill mix on fees was a potential average increase in fee scales for our financial audit work of between 12% and 18%. This is consistent with expectations in other UK public audit bodies and the private sector audit firms.
- 13 We have now started more detailed risk assessment under the new audit approach and will be able to provide you with an updated assessment of the audit fee once we have completed that initial risk planning. Our initial estimate is that audit fees will increase by 10.2% for ISA 315 in addition to the 4.8% inflationary increase set out in our Audit Wales [2023-24 Fee Scheme](#). Your

Engagement Director will discuss the proposed fee for your audit once that risk assessment has been completed.

Timetable for the Audit of Accounts 2022-23

- 14 The introduction of the revised Standard and a radically different audit approach has implications for audit timetables. We have worked closely with the other UK Public Audit Bodies to develop an audit methodology which we believe will add value to Audited Bodies whilst continuing to maintain the high-quality audit which we know you expect from us. However, it is inevitable that the new approach will require additional time to implement.
- 15 From our discussions with various audited bodies, we are aware that a number of you are struggling to recruit experienced finance staff and that this may also impact audit timetables. We are facing similar challenges and know that this position is consistent with the National Audit Office (NAO), Audit Scotland and the Northern Ireland Audit Office. The NAO's recovery plan article is a useful reference in this context¹. In addition, a more recent report by the National Audit Office (January 2023) highlights the delays to local government audit opinions in England, and describes plans to get back on track with the timetable for published audit opinions².
- 16 As the auditors of Local Government Bodies in Wales, we have also been experiencing delays in completing our audit of the 21-22 accounts. These delays result from a variety of factors though mainly from a technical issue regarding the valuation of Local Government infrastructure assets. This issue affected all local government bodies across the UK that hold infrastructure assets. CIPFA issued its final accounting guidance in early January 2023. Consequently, the Welsh Government issued a letter setting out its expectation that Welsh authority accounts would be certified by 31 January 2023. These issues, together with the late submission of some 21-22 accounts, has impacted

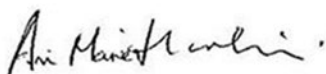
¹ [The NAO: getting government accounts back on track | ICAEW](#)

² [Timeliness of local auditor reporting on local government in England](#)

our ability to commence our 2022-23 audits in line with previous year timetables.

- 17 We support the ambition of the Society of Welsh Treasurers and the sector in general to return to an earlier timetable. We understand from our discussions to date that the sector has an ambition to return to the point where accounts are prepared and available for audit by 30 June each year. Assuming this date can be achieved by a majority of bodies in 2023, and taking into account the issues referred to above, we are therefore proposing an audit certification deadline of **30 November 2023** for LG Bodies in Wales. Should any issues arise that may delay the completion of the audit we will of course discuss an alternative timetable with you at the earliest opportunity.
- 18 We recognise that this is later than many bodies would like but we believe it is important to set realistic timescales we can all work to. Over the next three years our plan would be for a staged return to a 30 September deadline as follows:
 - Audit of Accounts 2022-23 – certification by 30 November;
 - Audit of Accounts 2023-24 – certification by 31 October 2024; and
 - Audit of Accounts 2024-25 – certification by 30 September 2025.
- 19 We value the constructive working relationship we have with your finance teams and will continue to work closely with you to bring forward the deadlines for future years.
- 20 We remain committed to working collaboratively with you to successfully navigate this challenge, building on our shared experiences. We will ensure we attend all the relevant local government fora to discuss the content of this letter with you.
- 21 Thank you to you and your teams for working so well with us.

Yours sincerely



Ann-Marie Harkin
Executive Director Audit Services

Appendix 1 – the key changes to the standard and the potential impact on your organisation

Key change	Potential impact on your organisation
<p>More detailed and extensive risk identification and assessment procedures</p>	<p>Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none"> • information on your organisation’s business model and how it integrates the use of information technology (IT); • information about your organisation’s risk assessment process and how your organisation monitors the system of internal control; • more detailed information on how transactions are initiated, recorded, processed and reported. This may include access to supporting documentation such as policy and procedure manuals; and • more detailed discussions with your organisation to support the audit team’s assessment of inherent risk.
<p>Obtaining an enhanced understanding of your organisation’s environment, particularly in relation to IT</p>	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none"> • IT applications relevant to financial reporting; • the supporting IT infrastructure (e.g. the network, databases); • IT processes (e.g. managing program changes, IT operations); and • the IT personnel involved in the IT processes. <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may</p>

Key change	Potential impact on your organisation
	need to engage with members of your IT team who have not previously been involved in the audit process.
Enhanced requirements relating to exercising professional scepticism	Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.
Risk assessments are scalable depending on the nature and complexity of the audited body	The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.
Audit teams may make greater use of technology in the performance of their audit	Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.