

Audit Progress Report

Transport for the North

July 2021



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01

Section 01:
Audit progress

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 and also includes, at Section 2, for your information, a summary of recent national reports and publications.

2020/21 audit

We received the accounts on 7 June 2021 and supporting working papers have been provided.

Although our audit work is progressing well, it is not yet complete. We will present our audit completion report to the next meeting of the committee on 16 September 2021.

02

Section 02:

National publications

National Publications

	Publication/update	Key points
Ministry of Housing, Communities and Local Government (MHCLG)		
1.	MHCLG - Methodology for allocating £15 million to local bodies and review of Appointing Person regulations, 20 April 2021	£15 million in additional funding in 2021/22 towards external audit fees. Consultation on amending the timescale for setting fee scales.
2.	MHCLG - Local authority financial reporting and external audit: Spring update, 19 May 2021	A new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC, preferred system leader. Public Sector Audit Appointments (PSAA) role to continue into next national procurement.
National Audit Office (NAO)		
3.	NAO Updated Guidance for Auditors, April 2021	Revised guidance for VFM arrangements work under the new Code of Audit Practice, including extended deadlines, and updated guidance on consideration of going concern in the public sector context.
4.	NAO Report – <i>Initial learning from the government’s response to the COVID-19 pandemic, May 2021</i>	Latest NAO report on learning from the government response to the pandemic.

NATIONAL PUBLICATIONS

MHCLG

1. MHCLG - Methodology for allocating £15 million to local bodies and review of Appointing Person regulations, 20 April 2021

The Ministry of Housing, Communities & Local Government (MHCLG) announced as part of its response to the Redmond Review, that it would provide £15 million in additional funding in 2021/22 towards external audit fees and the development of the proposed new standardised statement of service information and costs. The department has now launched a short, four-week consultation, seeking views on the on the methodology for allocating these funds to local bodies.

<https://www.gov.uk/government/consultations/consultation-on-allocation-of-15-million-to-local-bodies-for-audit/redmond-review-response-changes-to-the-audit-fees-methodology-for-allocating-15-million-to-local-bodies>

Running alongside this, the department has also launched a separate six-week consultation on the implementation of changes to the fee setting process for principal bodies set out in the Local Audit (Appointing Person) Regulations 2015. The consultation primarily seeks views on amending the timescale for setting fee scales, enabling the appointing person to consult on and approve a standardised additional fee, and for such payments to be made in year rather than at the completion of the audit.

<https://www.gov.uk/government/consultations/amendments-to-local-audit-fee-setting-arrangements>

NATIONAL PUBLICATIONS

MHCLG

2. MHCLG - Local authority financial reporting and external audit: Spring update, 19 May 2021

In December 2020, MHCLG delivered its response to the Redmond Review. This report details the actions already taken to implement the Redmond Review recommendations, and also sets out the government's thinking on the recommendations relating to systems leadership.

In March 2021 the government published a White Paper setting out its plans to reform corporate audit, reporting and governance. The White Paper set out details of how the government proposes to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC. It also set out government plans to create a new audit profession that is distinct from the accountancy profession, and to encourage competition in the market for audit of large listed companies. We have looked at options for local audit in the context of these wider reforms.

In this context, it is our view that ARGA, the new regulator being established to replace the FRC, would be best placed to take on the local audit system leader role.

The Department welcomes the changes made in the latest Code of Audit Practice in relation to VFM reporting. Until recently, the Code required auditors to give a binary opinion on whether the proper arrangements were in place. However, this was revised in the recent update to the Code, which now requires auditors to provide a narrative statement on the arrangements in place. The department welcomes this change, as it is our view that the binary value for money judgement required under the previous Code did not provide sufficient information for taxpayers or local bodies, particularly in a context where the complexity and commercialisation of local authority finances has increased. The new value for money requirements in the updated Code including a new commentary on governance, arrangements for achieving financial sustainability, and improving economy, efficiency and effectiveness - should help to address this.

MHCLG has confirmed that PSAA is the organisation best placed to act as the appointing body, including overseeing the next procurement of audit contracts. There is a balance to be struck between cost and quality. Historically, there were concerns that fees were too high and it was right that real savings were delivered for the taxpayer following the abolition of the Audit Commission. However, the context has changed since 2014, including the structure of the market, plus new obligations and the complexity of the work. It is striking that local audit scale fees reduced by 40% between 2014/15 and 2018/19, while central government and FTSE100 fees have increased by 20%. We have been working closely with PSAA in recent months to develop our plans for allowing greater flexibility to reflect additional costs in audit fees, and are allocating £15m to local bodies to help with this and the additional requirements associated with implementing Redmond's recommendations.

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-spring-update/local-authority-financial-reporting-and-external-audit-spring-update>

NATIONAL PUBLICATIONS

National Audit Office

3. NAO Updated Guidance for Auditors, April 2021

In April 2021, the Comptroller and Auditor General (C&AG) approved and published updated auditor guidance:

Auditor Guidance Note 03 (AGN 03) - Auditors' Work on Value for Money Arrangements. This has been updated to enable auditors to give their opinion on the financial statements if they have not yet completed all their VFM arrangements work (where there is no material impact on the opinion), including the approach to reporting any further issues if necessary by exception when auditors issue their certificate. The AGN also introduced revised deadlines for the Auditor's Annual Report, which includes the new commentary on VFM arrangements, of up to 3 months after issuing the audit opinion.

Auditor Guidance Note 07 (AGN 07) – Auditor Reporting. This was updated to bring it into line with AGN 03 as above.

Supplementary Guidance Note 01 (SGN 01) - Going Concern – Auditors' responsibilities for local public bodies. The SGN focus is primarily on *Practice Note (PN) 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, (Revised 2020)*, setting an expectation that auditors will follow the approach it sets out. This recognises that going concern in the public sector context includes the concept of the 'continued provision of services' and the legislative basis for public services, which means that the circumstances that will give rise to a material uncertainty in going concern are relatively limited and rare, and would normally require legislative changes. This view is also reflected in the CIPFA Code, which recognises that the financial statements are prepared on a going concern basis.

The NAO guidance does, however, highlight the wider issue of financial sustainability and funding for public services. Management will still need to undertake a going concern assessment, and disclose an appropriate narrative within its financial statements in relation to the impact of the pandemic and pressures on funding, and disclose any potential material uncertainties should they exist.

All of the NAO auditor guidance is publicly available at this link: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

NATIONAL PUBLICATIONS

National Audit Office

4. NAO Report – *Initial learning from the government’s response to the COVID-19 pandemic, May 2021*

The NAO has recently published its *Initial learning from the government’s response to the COVID-19 pandemic* report, which is part of a programme of work the NAO is undertaking to support Parliament in its scrutiny of government’s response to COVID-19. The report finds that the COVID-19 pandemic has stress-tested the government’s ability to deal with unforeseen events and potential shocks. Government has often acted at unprecedented speed to respond to a virus which has caused dramatic disruption to people’s lives, public service provision and society as a whole. Government had to continue to deliver essential public services, while reprioritising resources to deliver its response to the COVID-19 pandemic and supporting staff to work from home. In its response, government has had to streamline decision-making, work across departments and public bodies and use a range of delivery structures.

Departments will need to reflect on the lessons learned to ensure that they capitalise on the benefits and opportunities these new ways of working have brought.

This report draws out learning from the reports that we have published to date, as well as other work we have published that covered the COVID-19 pandemic. It sets out this learning across six themes:

- risk management;
- transparency and public trust;
- data and evidence;
- coordination and delivery models;
- supporting and protecting people; and
- financial and workforce pressures.

The NAO will continue to draw out learning from the government’s response to the pandemic from our future work.

The full report is available from the NAO website. <https://www.nao.org.uk/wp-content/uploads/2021/05/Initial-learning-from-the-governments-response-to-the-COVID-19-pandemic.pdf>

Contact

Mazars

Director: Karen Murray

Email: karen.murray@mazars.co.uk

Manager: Campbell Dearden

Email: campbell.dearden@mazars.co.uk

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