

# Audit Progress Report

## Transport for the North

February 2022



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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**

As members of the Audit and Governance Committee will recall, we presented our Audit Completion Report for 2020/21, dated 8 September 2021, to the meeting on 16 September 2021 and we signed our audit opinion on 30 September 2021.

Our report explained that our value for money work was not complete at that time and the latest guidance from National Audit Office (NAO) allowed auditors to report the results of their value for money work in a new Auditor's Annual Report, within three months of giving the opinion on the financial statements. We completed this work in December 2021 and our Auditor's Annual Report is a separate item on this agenda. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

As explained in our Auditor's Annual Report we have not yet issued the Audit Certificate for 2020/21, which formally closes the audit. This is due to the delay in the guidance from the National Audit Office in relation to TfN's Whole Government Accounts. We expect this guidance to be released shortly and we will close the audit once we have received their instructions and completed the required procedures.

## **2021/22 audit**

We have not yet commenced our planning work for the 2021/22 audit. We have no issues to bring your attention at this early stage of the audit process.

We intend to share our formal 2021/22 Audit Strategy Memorandum at a future meeting of the Audit and Governance Committee.

# 02

Section 02:

**National publications**

# National Publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
1.	<b>CIPFA launches value for money toolkit with the University of Oxford's GO Lab</b>	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation.
2.	<b>New Prudential and Treasury Management Codes</b>	These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities and TfN operate.
<b>Department for Levelling Up, Housing and Communities</b>		
3.	<b>Measures to improve local audit delays and accounts and audit timetable confirmed</b>	DLUHC have announced a new package of measures 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>		
4.	<b>Climate change risk: A good practice guide for Audit and Assurance Committees</b>	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
5.	<b>Cyber and Information Security: Good practice guide</b>	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.
6.	<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.
7.	<b>The Local Government finance system in England: Overview and Challenges</b>	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
8.	<b>Financial Sustainability of Schools in England</b>	This report assesses the financial health of schools, updating a previous NAO report from 2016.

# National Publications

	Publication/update	Key points
National Audit Office (NAO) - continued		
9.	<b>Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities</b>	This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year.
Department of Health and Social Care (DHSC)		
10.	<b>DHSC Integrated Care Partnership (ICP) Engagement Document</b>	This aims to support Local Authorities, Integrated Care Boards, and other key stakeholders in considering what arrangements might work best in their area when laying the foundations for establishing ICPs.
Financial Reporting Council (FRC)		
11.	<b>Inspection findings into the quality of major local body audits</b>	This report sets out the findings of FRC's most recent quality inspection of major local audits, which indicate a significant improvement by Mazars LLP.

# NATIONAL PUBLICATIONS

## CIPFA

### 1. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

<https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit>

### 2. 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.

The revised Prudential Code emphasises that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities. 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 new Treasury Management Code states that 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

## DLUHC

### 3. Measures to improve local audit delays

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.

Challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his review. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays.

The Government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. An additional £15 million in funding has been made available to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.

The report concludes that in the light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. Therefore, subject to consultation, secondary legislation will be introduced to set the following deadlines:

- The 2021/22 accounts to be audited and published by 30 November 2022;
- The 2022/23 accounts to be audited and published by 30 November 2023;
- The 2023/24 to 2027/28 accounts to be published by 30 September each year; and
- Draft accounts to be published by 31 May each year.

The full publication can be seen at this link: [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/measures-to-improve-local-audit-delays)

# NATIONAL PUBLICATIONS

## National Audit Office

### 4. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide is designed to help audit committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing these risks, the financial health of the sector before the pandemic and the financial impact of the pandemic in 2020/21;

The full report can be seen at this link: <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>

### 5. Cyber and Information Security: Good practice guide, October 2021

The guidance is based on NAO previous work and detailed systems audits, which have identified a high incidence of access-control weaknesses . NAO recommend that audit committees scrutinise cyber security arrangements in response to this increasing threat. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The full report can be seen at this link: <https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

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

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.

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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.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic>

### **7. The Local Government finance system in England: Overview and Challenges, November 2021**

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding;
- Government policy and actions since 2010; and
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures;
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions;

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- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making; and
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/>

### 8. Financial Sustainability of Schools in England

The report concludes that the financial health of the mainstream school system has held up well despite the funding and cost pressures that schools have faced in recent years, although the data does not yet fully reflect the significant impact that the COVID-19 pandemic has had. Most maintained schools and academy trusts are in surplus, but there are significant pressures on some maintained secondary schools.

The concern in relation to the academy sector is that a sizeable minority of academy trusts are building up substantial reserves, meaning they are spending less than their annual income on their pupils.

Ofsted inspection ratings suggest that mainstream schools have generally maintained educational quality, although there are indications that the steps schools are taking in response to financial pressures may adversely affect aspects of their provision.

Since the last report in 2016, the Department for Education has implemented a range of programmes to support schools to improve their resource management and achieve savings, which have generally been well received by the sector and helped schools to achieve savings. However, the Department's data have not been sufficiently complete or reliable to assess whether the programmes are having the impact it intended or achieving value for money.

<https://www.nao.org.uk/report/financial-sustainability-of-schools-in-england/?slide=1>

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## National Audit Office

### 9. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

The Ministry of Housing, Communities and Local Government (MHCLG) was renamed the Department of Levelling Up, Housing and Communities in September 2021 in to reflect a new ministerial appointment in the cabinet reshuffle and raise the profile of the Government's '*levelling-up*' agenda. This NAO report provides a summary of the new department's major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: <https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities> :

# NATIONAL PUBLICATIONS

## DHSC

### 10. Integrated Care Partnerships (ICPs) Engagement Document, September 2021

The Health and Social Care Bill introduces statutory arrangements for integrated care systems with two components:

- Establishes the Integrated Care Partnership (ICP): a broad alliance of organisations and representatives concerned with improving the care, health and wellbeing of the population, jointly convened by local authorities and the NHS; and
- Creates a statutory body, the Integrated Care Board (ICB), responsible for the commissioning of healthcare services in that ICS area, bringing the NHS together locally to improve population health and care.

This document aims to:

- offer further detail on what DHSC see as the role of, and opportunities for ICPs as one of two core elements of ICSs;
- provide further explanation around the statutory framework for ICPs, as legislated for by the Health and Care Bill;
- set out the guiding expectations DHSC has for ICPs in their operation and delivery; and
- give stakeholders more clarity on timings for establishment of ICPs and how this fits with the establishment of other elements of the system.

The ICP is a core element of the statutory arrangements for ICSs which will not be fully functional without an ICP. DHSC therefore expect that all systems will have at least an interim ICP up and running when statutory ICBs commence as planned in April 2022, subject to the passage of the Health and Care Bill through Parliament.

<https://www.gov.uk/government/publications/integrated-care-partnership-icp-engagement-document>

# NATIONAL PUBLICATIONS

## FRC

### 11. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements. FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

In respect of Mazars, the FRC concluded that “*the audit quality results for our inspection of the four audits showed significant improvement compared to the prior years, with all audits assessed as requiring no more than limited improvements*”. The table below shows how Mazars compared to the other firms reviewed:

#### Proportion of files reviewed graded ‘good’ or ‘limited improvements required’

Mazars	EY	GT	KPMG	Deloitte	BDO	PWC
100%	75%	67%	33% average over the 3 other suppliers			Not assessed

# Contact

## Mazars

Partner: Karen Murray

Email: [karen.murray@mazars.co.uk](mailto:karen.murray@mazars.co.uk)

Manager: Campbell Dearden

Email: [campbell.dearden@mazars.co.uk](mailto:campbell.dearden@mazars.co.uk)

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