

# Audit Progress Report

## Transport for the North

June 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 explained in our February 2022 Progress Report, we have not been able to issue 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 (NAO) in relation to TfN's Whole Government Accounts. We do not expect the NAO guidance to be available before 31 July 2022.

## **2021/22 audit**

We have completed our planning work for the 2021/22 audit. Our 2021/22 Audit Strategy Memorandum will be presented at this meeting of the Audit and Governance Committee. Our work on your financial statements begins on 7 June 2022.

# 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 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.

# National Publications

	Publication/update	Key points
National Audit Office (NAO) - continued		
8.	<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.
Financial Reporting Council (FRC)		
9.	<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. 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

## FRC

### 9. 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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