

Audit progress report

North East Derbyshire District Council

July 2021



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01

Section 01: **Audit progress**

Audit progress

Purpose of this report

This report provides the Audit and Corporate Governance Scrutiny Committee meeting of 28 July 2021 with a short update on progress in delivering our responsibilities as your external auditors and also includes, at Section 2, a summary of recent relevant reports and publications for your information.

2020/21 audit

Our Audit Strategy Memorandum for 2020/21 to the Committee in April included the outline timetable below for the planned work. In this quarter we are carrying out the fieldwork audit work on the 2020/21 financial statements, with the main on-sight audit work due to start 26 July 2021. There are no changes from the planned approach or significant matters arising to date to report to you at this stage of the audit. We still expect to report our audit findings to the Committee's September meeting through our Audit Completion Report and to be able to issue our audit opinion shortly after the meeting. The specific timing is subject to, amongst other things, the timing of the assurances requested from the Derbyshire Pension Fund auditor (expected early September 2021). We will keep management informed as the audit work progresses.

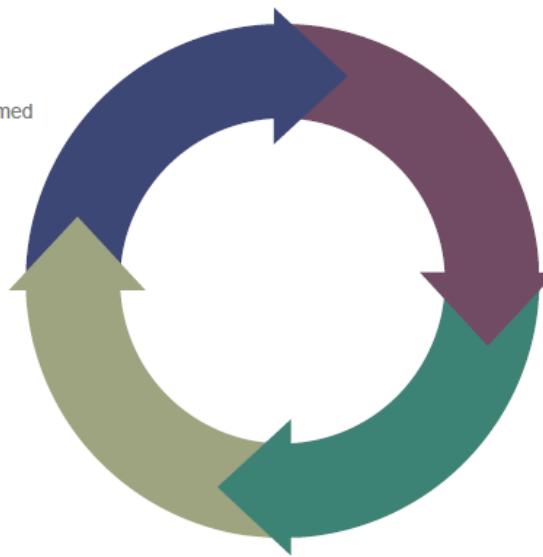
It is likely that we will report on VFM at a later date, in accordance with the revised guidance issued by the NAO in April 2021, and explained on page 13 of this report. There are no further matters to report to the Committee at this stage in relation to the Value for Money assessment.

Planning – January/February

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion – September**

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Corporate Governance Scrutiny Committee
- Reviewing subsequent events
- Signing the auditor's report



Interim – February/March

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork – July to August*

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

* Specific dates TBC

** Completion subject to, amongst other things, the timely provision of information by third parties and us being able to fully complete the audit procedures to the required quality standards

02

Section 02:
National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	Capital Strategy Guidance: A Whole Organisation Approach	Publication aims to support continuous improvement and includes a checklist.
2.	Successful Collaborations in the Public Services: the role of internal audit	Guide for internal auditors reviewing 'collaborations', but also of use to a wider audience given increased joint working.
3.	CIPFA Bulletin 09: Closure of the 2020-21 Financial Statements, 30 April 2021	This bulletin provides guidance for local government bodies on a range of issues that may need to be considered as part of their 2020-21 accounts preparation.
Ministry of Housing, Communities and Local Government (MHCLG)		
4.	Update to audit review response	New powers for Audit, Reporting and Governance Authority on local government audit. Public Sector Audit Appointments is reconfirmed as appointing body for audit procurement and contract management.
5.	Methodology for allocating £15 million to local bodies and review of Appointing Person regulations	Consultations were held on allocation of the funds.
National Audit Office (NAO)		
6.	Initial learning from the government's response to the COVID-19 pandemic	Latest NAO report on learning from the government response to the pandemic.
7.	Framework to review programmes update	Framework for reviewing major programmes, along with examples of what 'good' looks like.
8.	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.

NATIONAL PUBLICATIONS

CIPFA

1. Capital Strategy Guidance: A Whole Organisation Approach, May 2021

This guidance focuses on a whole organisation approach to prudent, sustainable and resilient local government investment.

The development of capital strategies has been challenging and difficult to implement fully and it is clear from the examples examined that there is still room for improvement for all local government organisations. The intention of this capital strategy guidance is to learn from what has been achieved to date and to support local government organisations with continuous improvement and refresh. CIPFA has identified areas for improvement that may help in the form of a checklist.

This guidance has been brought to life by including points to consider and extracts from capital strategies reported in 2020, although CIPFA recognises that most were published prior to the more serious impact of COVID-19.

<https://www.cipfa.org/policy-and-guidance/publications/c/capital-strategy-guidance-a-whole-organisation-approach>

2. Successful Collaborations in the Public Services: the role of internal audit, May 2021

The guide considers key concerns for internal auditors as they become involved in collaborative arrangements including the need for a 'singular' entity; how they can safeguard their independence and how assurance can be co-ordinated across providers. The guide also sets out issues for the internal auditor to review at each stage of the collaborative process to help inform audit scope. The publication covers the following:

- collaborative arrangements – the role of the internal auditor: benefits and barriers;
- pressures to collaborate and emerging models;
- stages of collaboration and the role of the internal auditor at each stage; and
- working with other assurance providers and internal auditors.

The guide draws on the good governance principles set out in the *International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014) throughout. It will assist internal auditors to perform effectively in their roles in relation to collaborations and add value for their entities. It will also be useful for others providing assurance on, or looking to establish, collaborative arrangements, including audit committees, external auditors and chief financial officers. It will also assist those, such as members of the wider governing body, wishing to gain a greater understanding of how internal auditors can assist public service entities in achieving the objectives of collaborative ventures.

<https://www.cipfa.org/policy-and-guidance/publications/s/successful-collaborations-in-the-public-services-the-role-of-internal-audit>

NATIONAL PUBLICATIONS

CIPFA

3. CIPFA Bulletin 09: Closure of the 2020-21 Financial Statements, April 2021

Auditors will wish to be aware that CIPFA have published Bulletin 09: Closure of the 2020-21 Financial Statements. This bulletin provides guidance for local government bodies on a range of issues that may need to be considered as part of their 2020-21 accounts preparation.

Hot topics include accounting for grant funding in the pandemic, accounting for dedicated schools grant deficits and accounting for collection fund surpluses and deficits in 2020/21.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-09-closure-of-the-202021-financial-statements>

NATIONAL PUBLICATIONS

MHCLG

4. MHCLG – update to audit review response, May 2021

Further measures to help ensure taxpayers get value for money by improving the effectiveness and transparency of local government audit, were announced by the government.

The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers. The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

5. 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 carried out a short, four-week consultation, seeking views 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 carried out 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 was seeking 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

National Audit Office

6. 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 the NAO has published to date, as well as other work it has published that covered the COVID-19 pandemic. It sets out this learning across six themes, with a summary shown below:

Risk management

- Identifying the wide-ranging consequences of major emergencies and developing playbooks for the most significant impacts.
- Being clear about risk appetite and risk tolerance as the basis for choosing which trade-offs should be made in emergencies.

Transparency and public trust

- Being clear and transparent about what government is trying to achieve, so that it can assess whether it is making a difference.
- Meeting transparency requirements and providing clear documentation to support decision-making, with transparency being used as a control when other measures, such as competition, are not in place.
- Producing clear and timely communications.

NATIONAL PUBLICATIONS

National Audit Office

6. NAO Report – Initial learning from the government's response to the COVID-19 pandemic, May 2021 (continued)

Data and evidence

- Improving the accuracy, completeness and interoperability of key datasets and sharing them promptly across delivery chains.
- Monitoring how programmes are operating, forecasting changes in demand as far as possible, and tackling issues arising from rapid implementation or changes in demand.
- Gathering information from end-users and front-line staff more systematically to test the effectiveness of programmes and undertake corrective action when required.

Coordination and delivery models

- Ensuring that there is effective coordination and communication between government departments, central and local government, and private and public sector bodies.
- Clarifying responsibilities for decision-making, implementation and governance, especially where delivery chains are complex and involve multiple actors.
- Integrating health and social care and placing social care on an equal footing with the NHS.
- Balancing the relative merits of central, universal offers of support against targeted local support.

Supporting and protecting people

- Understanding to what extent the pandemic and government's response have widened inequalities, and taking action where they have.
- Providing appropriate support to front-line and other key workers to cope with the physical, mental and emotional demands of responding to the pandemic.

Financial and workforce pressures

The NAO will continue to draw out learning from the government's response to the pandemic in its future work.

<https://www.nao.org.uk/wp-content/uploads/2021/05/Initial-learning-from-the-governments-response-to-the-COVID-19-pandemic.pdf>

NATIONAL PUBLICATIONS

National Audit Office

6. NAO Report – Initial learning from the government's response to the COVID-19 pandemic, May 2021 (continued)

Financial and workforce pressures

- Placing the NHS and local government on a sustainable footing, to improve their ability to respond to future emergencies.
- Ensuring that existing systems can respond effectively and flexibly to emergencies, including provision for spare or additional capacity and redeploying staff where needed.
- Considering which COVID-19-related spending commitments are likely to be retained for the long term, and what these additional spending commitments mean for long-term financial sustainability.

The NAO will continue to draw out learning from the government's response to the pandemic in its future work.

<https://www.nao.org.uk/wp-content/uploads/2021/05/Initial-learning-from-the-governments-response-to-the-COVID-19-pandemic.pdf>

7. NAO report - Framework to review programmes update April 2021

This NAO publication sets out updated questions to assess how well programmes are delivered and to highlight the risks a programme faces. Although designed for an audit approach, project professionals and those reviewing programmes may find these questions useful to challenge themselves about how well a programme is being delivered.

The framework comprises 18 key questions grouped into the four elements the NAO considers when it audits programmes:

- Purpose: need for programme, portfolio management and dependencies, stakeholder engagement.
- Value: options appraisal, business case, costs and duration, benefits.
- Set-up: governance and assurance, leadership and culture, delivery resources, putting the programme into practice, risk management
- Delivery and variation management: delivery strategy, change control, responding to external change, performance management, lessons learned, transition to business as usual.

<https://www.nao.org.uk/report/framework-to-review-programmes-update-april-2021/>

NATIONAL PUBLICATIONS

National Audit Office

8. 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/>

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