

Audit progress report

City of York Council

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 meeting 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 reports and publications.

2020/21 audit

In this quarter we are carrying out our audit work on the 2020/21 financial statements and considering our approach to our Value for Money commentary for 2020-21.

Work is progressing and there are no significant matters to report to you at this stage of the audit.

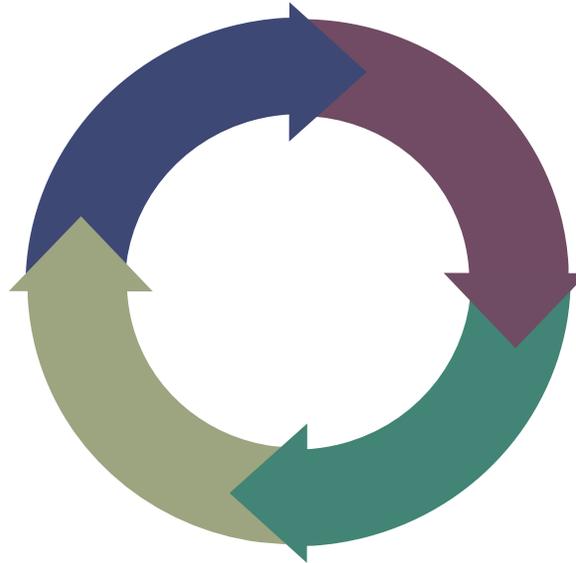
Planning March 2021

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

Completion September to October 2021*

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

* subject to receipt of Pension Fund auditor assurance



Interim March 2021

- Documenting systems and controls
- Performing walkthroughs

Fieldwork July-September 2021*

- Receiving and reviewing draft financial statements
- Tests of IT general controls
- 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

* as per comments to the left

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.
Ministry of Housing, Communities and Local Government (MHCLG)		
3.	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.
4.	Methodology for allocating £15 million to local bodies and review of Appointing Person regulations	Consultations were held on allocation of the funds.
5.	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)		
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.

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

MHCLG

3. 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>

4. 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 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

MHCLG

5. 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

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/>

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