

Audit Progress Report

Transport for the North (TfN)

February 2020





CONTENTS

- 1. Audit progress**
- 2. National publications**

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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit & Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Since the Committee last met we have:

- Undertaken our interim audit work. This has incorporated:
 - Documenting our understanding of corporate governance and control framework as it relates to our audit responsibilities.
 - Documenting our understanding of the key financial systems relevant to the financial statements, and the key controls that TfN has in place to prevent, detect and correct material misstatements to the financial statements.
 - Carrying out walkthrough tests of key controls to confirm that they are operating in the manner they have been designed.
 - Carrying out detailed testing of transactions for the year to date for payroll expenditure and non-pay expenditure.
- Issued our 2019/20 Audit Strategy Memorandum.
- Commenced our detailed work related to our value for money conclusion. This work will continue through to the end of the financial year.
- Maintained regular liaison with the finance team to understand how TfN is continuing to manage its risks.
- Discussed our year end audit visit to carry out the detailed testing of the entries in the draft financial statements.

Our work is progressing as planned and from the work carried out to date there are no matters we need to raise with the Audit and Governance Committee.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
Mazars			
1	Mazars' response to the Brydon Review	Mazars' response to the latest review into the auditing profession which was published in December 2019.	5
2	Annual Transparency Report	Sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.	5
Public Sector Audit Appointments			
3	Consultation on 2020/21 scale of audit fees	PSAAs annual consultation on the next audit year external audit fees	6
National Audit Office			
4	New Code of Audit Practice 2020/21	Publication of the Code of Practice that prescribes the focus of the external audit and auditor reporting for five years from 2020/21	6
5	Round-up for Audit Committees	Updated 'round-up' of resources for Audit Committees	6
Chartered Institute of Public Finance and Accountancy (CIPFA)			
6	Financial Management Code	Guidance for good and sustainable financial management in local authorities.	7
7	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2019/20 Accounts	Guidance notes to assist bodies to comply with the Code of Practice in preparing the 2019/20 financial statements	7
8	IFRS 16 Leases: An Early Guide for Local Authority Practitioners	Guidance to assist the preparations for the 2020/21 application of IFRS16	8

2. NATIONAL PUBLICATIONS – MAZARS

1. Mazars' response to the Brydon Review, *Mazars*, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published.

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

2. Annual Transparency Report, *Mazars*, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

2. NATIONAL PUBLICATIONS – PSAA

3. Consultation on 2020/21 scale of audit fees, January 2020

PSAA are consulting on the proposed scale of fees for 2020/21 audits.

The consultation sets out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme.

<https://www.psaa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

4. New Code of Audit Practice 2020/21, February 2020

The NAO have published their final draft of the Code following the consultation process. The Code has now been laid before Parliament and, subject to Parliamentary approval, will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

Accompanying the Code is a document that sets out the issues the NAO considered as a result of the feedback to Stage 2 of the consultation on the exposure draft of the Code, and highlights the key changes made to the text of the final draft of the Code.

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice-consultation_response.pdf

5. Round-up for Audit Committees, November 2019

This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors.

This round-up is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. It includes an introduction by Gareth Davies, Comptroller and Auditor General, and draws particular attention to publications most useful for governance, oversight and risk management. It is published each autumn and spring, covering NAO publications over the previous six months.

<https://www.nao.org.uk/report/round-up-for-audit-committees/>

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

6. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

7. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2019/20 Accounts, CIPFA, November 2019

The guidance notes support bodies in dealing practically with the preparation of the year-end financial statements and reports that accompany them. This version provides detailed guidance on the key accounting changes introduced by the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and includes:

- Updates to reflect 2018 IASB Conceptual Framework.
- Guidance on the Code's adoption of the amendments to the financial instruments standard (IFRS 9 Financial Instruments) relating to prepayment features with negative compensation.
- Updates to reflect the Code clarifications relating to contracts with lender option borrower option clauses.
- New guidance on the group accounts scope clarification for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle).
- Explanation of the Code approach to drafting amendments (including commentary on when the Code adapts or interprets IFRS).
- Removal of references to Carbon Reduction Commitment Scheme following the Scheme closure.
- A new section on the accounting treatment for the apprenticeship levy.
- Updates for the new voluntary transfers presentation (for Scottish local authorities only) in the movement in reserves statement and expenditure and funding analysis. This includes the treatment within the reserves.

Example financial statements have been updated to reflect the changes described above.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-guidance-notes-for-201920-accounts-online>

2. NATIONAL PUBLICATIONS – CIPFA

8. IFRS 16 Leases: An Early Guide for Local Authority Practitioners, CIPFA, December 2019

Although changes will not have an effect until the 2020/21 financial statements, CIPFA/LASAAC consulted in the summer of 2018 on amendments to the Code of Practice on Local Authority Accounting for IFRS 16 Leases. The Standard is expected to have a potentially significant practical and financial effect for local authorities, and it was considered that early notice of the technical requirements was advisable.

It will be of wide interest because of the prevalence of leasing in local government and the risk that the changes could have a budgetary impact if not managed effectively.

This guidance provides comprehensive coverage of the proposed requirements for lessees, including the accounting definition of a lease, recognition of assets and liabilities, measurement, derecognition and presentation, and disclosure in the financial statements. Although there have not been significant changes to the requirements for lessors, the guidance includes extensive commentary of this area.

The guidance covers in particular:

- identifying arrangements that meet the accounting definition of a lease
- determining the term of a lease where there are options to extend or terminate
- for lessees:
 - recognising right-of-use assets and lease liabilities, and their initial and subsequent measurement
 - reassessment of lease liabilities and treatment of lease modifications
- for lessors, distinguishing between finance and operating leases and accounting accordingly
- dealing with sale and leaseback transactions
- presenting lease transactions and balances in the financial statements
- disclosure of information about leases in the notes to the accounts
- harmonising with statutory accounting requirements
- the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

<https://www.cipfa.org/policy-and-guidance/publications//ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

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