

# Audit Progress Report

Transport for the North (TfN)

May 2020





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# 1. 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 auditor.

## Audit progress

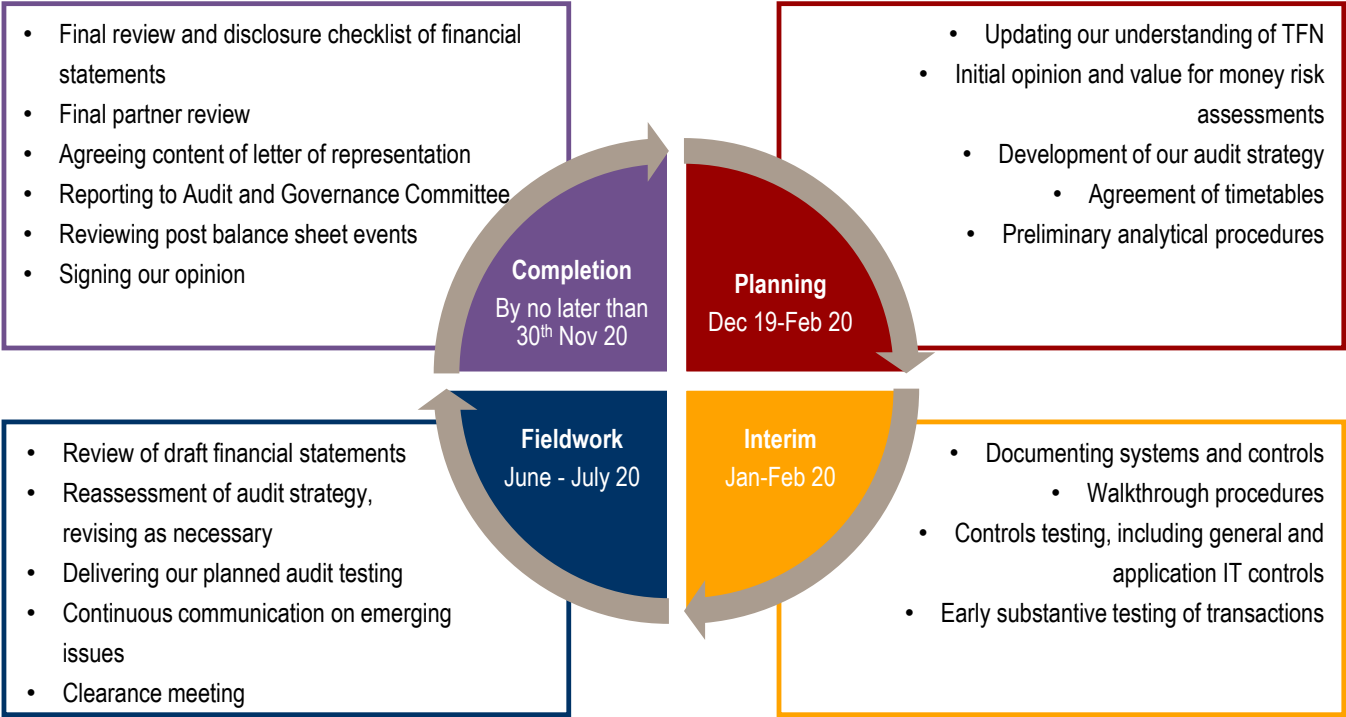
Our key audit stages are summarised in the diagram shown below.

As in prior years, we completed our walkthrough and interim testing in January and February 2020. Our Audit Strategy Memorandum for 2019/20 was presented to the Audit and Governance Committee meeting in February 2020.

We have continued to progress our work in response to the significant risk we identified in relation to the value for money conclusion. This work will continue over the Summer and results discussed with Officers and set out in our Audit Completion Report.

There are no significant matters arising from our audit work completed to date that we are required to report to you at this stage.

We consider the implications of the Covid-19 pandemic overleaf.



# 1. AUDIT PROGRESS

## MAZARS' RESPONSE TO COVID-19

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us.

### Ensuring resilience and maintaining the level and quality of client service

- Beyond protecting the welfare of our clients and people, Mazars' first priority is to continue to deliver on our business commitments. As part of our existing contingency planning, we have implemented systems and procedures to ensure continuity and to minimise any disruption.
- Our teams have full access to remote working technology with secure access to their applications, tools and data, wherever they are, and agile working processes are well-established across the firm.
- In a shifting environment, we will continue to adapt our approach to best navigate the uncertain situation while keeping our people and our clients front of mind.
- All partners and staff are working remotely, and our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients, deliver on our commitments, and provide continuity and support at the time it's most needed.

Mazars' external website contains further details of its response to the emerging situation, along with daily economic briefings.

<https://www.mazars.co.uk/>

### Responding to changes – working with Transport for the North

All Mazars' staff moved to remote working from the 16<sup>th</sup> March 2020. We are committed to supporting TFN as best we can throughout the coming period, recognising first and foremost, the need to be flexible as the current environment changes and also potential pressures on the finance team at TFN. We have maintained regular communication throughout this period with senior finance staff at TFN.

We are able to carry out the audit remotely and will put in place arrangements to allow this: e.g. regular virtual update meetings, shared site for secure transfer of data and keeping a queries log. The key difference is we will not, subject to any changes, have a physical on-site presence. We plan to maintain communication via regular video calls.

### Revised deadlines, scope and testing strategy

In response to the challenges presented by Covid-19, Local government accounts deadlines have been revised; and set out below are the original and revised deadlines.

Our testing strategy and assessment of risks, as set out in our Audit Strategy Memorandum, will be updated to take account of the emerging situation and brought to the Audit and Governance Committee at a later meeting. We revisit our testing strategy and assessment of significant risks on an on-going basis throughout the audit.

	Original key date	Revised key date
Submission of draft accounts and Annual Report	31 <sup>st</sup> May 2020	31 <sup>st</sup> August 2020
Audit & Governance Committee	16 July 2020	No change
Submission of final accounts	31 <sup>st</sup> July 2020	No later than 30 <sup>th</sup> November 2020

Following discussion with Officers, we expect to have substantively completed our audit of the 2019/20 financial statements by 16 July 2020. We will update Members should this timetable need to change.

## 2. SUMMARY OF NATIONAL PUBLICATIONS

This section of our report contains national publications which may be of interest to TFN, including recent publications in respect of Covid-19.

There have been many different briefings across different sectors, in respect of the emerging crisis and more are being published on an on-going basis. This summary does not intend to provide an exhaustive list of all recent publications, but to provide an overview of key areas.

Within Mazars, we liaise with the regulators for your sector on a regular basis and this will continue during the coming periods, so that we ensure we are up-to-date with emerging issues; we feed back any messages as part of on-going two-way communications.

	Publication/update	Key points
<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>		
1.	<b>Fraud control in emergency management</b>	The guidance states there is an inherently high risk of fraud, and it is very likely to happen.
<b>National Audit Office (NAO)</b>		
2.	<b>Code of Audit Practice</b>	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit years.
<b>Financial Reporting Council and other regulators</b>		
3.	<b>Statement in respect of current situation</b>	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.

## 2. NATIONAL PUBLICATIONS

### 1. Fraud control in emergency management, *MHCLG*, March 2020

This guidance is for leaders and fraud experts in government bodies and local authorities that are administering emergency programmes on behalf of the UK Government.

The UK Government is responding with measures to mitigate the economic and social impact of the COVID-19 pandemic. Sadly, fraudsters will try to take advantage of these emergency measures.

Government is committed to understanding these risks and taking action to reduce them, whilst dealing with the fraud that occurs where it can.

The fraud threat posed during emergency situations is higher than at other times, and all public bodies should be attuned to the risks facing their organisations and the public sector. Public bodies can reduce the threat of widespread fraud by integrating low-friction controls into payments where possible, and carrying out post-event assurance work.

The Cabinet Office has formed a COVID-19 Fraud Response Team to assist the government with its counter fraud response.

<https://www.gov.uk/government/publications/fraud-control-in-emergency-management-covid-19-uk-government-guide>

### 2. Code of Audit Practice, *National Audit Office*, March 2020

The final draft of the Code has now been approved by Parliament and will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. The NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). We plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

We will brief the Committee on changes as more guidance emerges over the year. Key messages from the new Code are summarised below:

#### **Audit of the financial statements**

Auditors must still comply with underlying auditing standards.

#### **Value for money arrangements**

- Removal of 'except for' and 'adverse' conclusions.
- Work based around 3 reporting criteria
  - Financial sustainability
  - Governance
  - Improving the 3Es
- Auditors must report when they are not satisfied that arrangements are in place. Where weaknesses are identified, recommendations are expected at any time of the audit.

#### **Auditor reporting**

- Auditor's Annual Report introduced
  - Replaces Annual Audit Letter
  - Includes enhanced commentary against each of the specified VFM reporting criteria
  - To be issued in line with the audit report on the financial statements

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



## 2. NATIONAL PUBLICATIONS

### 3. Statement on Covid-19, Financial Reporting Council and other Regulators, March 2020

A joint statement was issued by the Financial Reporting Council, the Financial Conduct Authority and Prudential Regulation Authority in response to the current situation.

The statement sets out that:

*“Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly.*

*Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information”*

This statement highlights:

- highlights likelihood of more modified opinions (where difficulties in obtaining evidence or other issues);
- going concern assumption considerations and uncertainties; and
- guidance for companies and auditors.

<https://www.fca.org.uk/news/statements/joint-statement-fca-frc-pra>