

Audit progress report

Transport for the North

December 2018





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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.

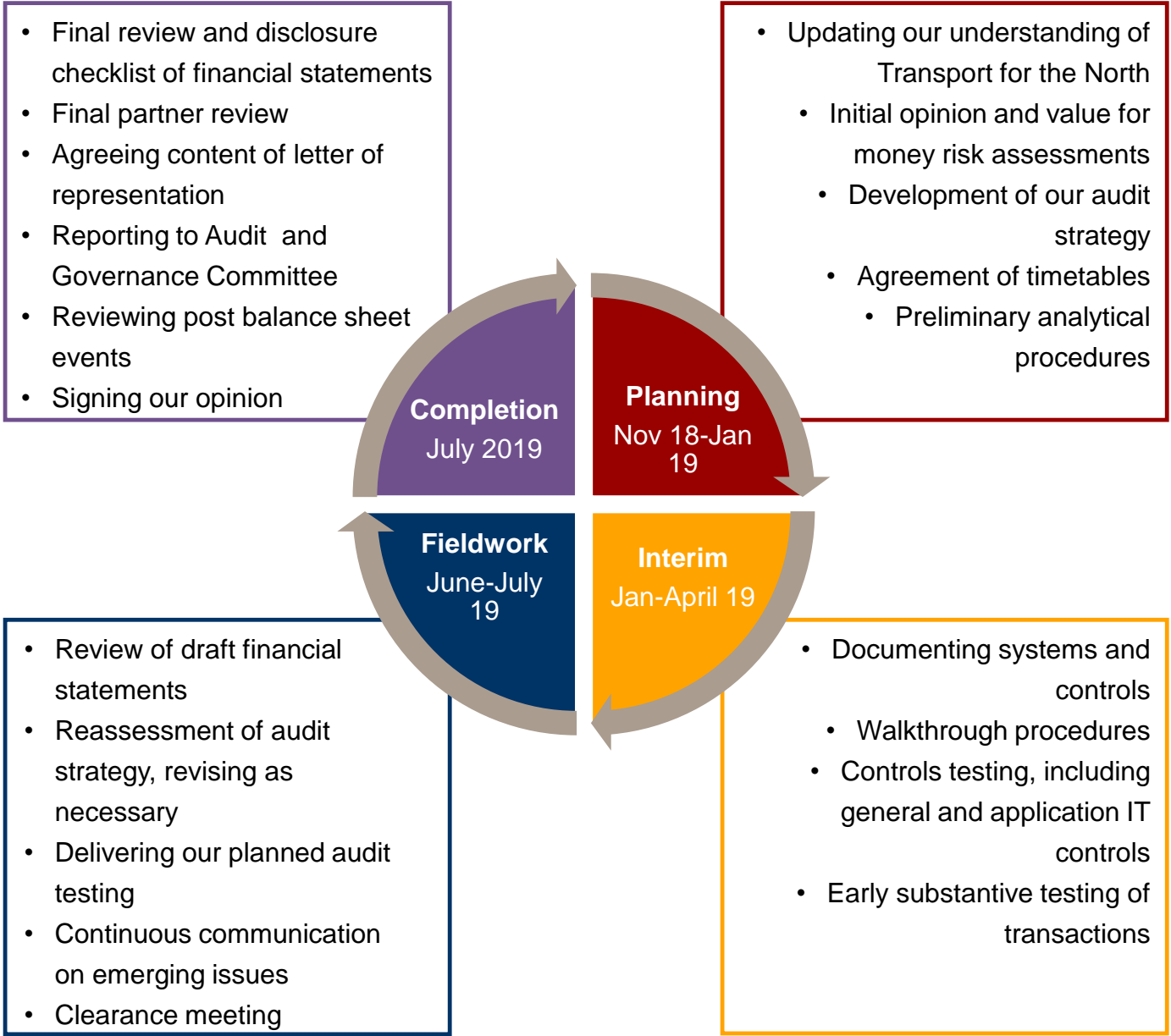
Audit progress

This is our first progress report in respect of the 2018/19 audit year. Our key audit stages are summarised in the diagram shown overleaf.

We have already met with senior members of your finance team, including the Finance Director and Financial Controller, to discuss the audit process, emerging issues and challenges, and to agree timescales for the completion of our audit work. Regular liaison meetings will continue throughout the year.

We have also met with Internal Audit and have provided to your finance team a schedule of working papers that will be required for the audit.

1. AUDIT PROGRESS



2. NATIONAL PUBLICATIONS

	Publication/update	Key points
National Audit Office (NAO)		
1.	Exiting the EU	The NAO has published a number of reports on the exit from the EU during 2018.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
2.	Local Authority Leasing Briefing 3	Potential key issue for local authorities and statement of accounts.
Public Sector Audit Appointments Ltd (PSAA)		
3.	Report on the results of auditors' work 2017/18: Principal local government and police bodies	Nearly 90% of entities received an audit opinion by the revised deadline. Report sets out encouraging results across the country.
4.	Mazars Annual Regulatory and Compliance Report 2017/18	Overall assessment of 'green'.
5.	Consultation on 2019/20 scale of fees for opted-in bodies	2019/20 fees proposed to remain the same as 2018/19.
6.	Oversight of audit quality, quarterly compliance reports	No significant issues.

2. NATIONAL PUBLICATIONS

1. Exiting the EU, NAO

The National Audit Office has produced a number of publications on the UK's exit from the EU, including:

- The UK border: preparedness for EU exit;
- Department for Environment, Food and Rural Affairs;
- Department for Transport;
- Consumer protection, competition and state aid; and
- Exiting the EU: the financial settlement.

https://www.nao.org.uk/search/pi_area/exiting-the-eu/type/report

2. Local Authority Leasing Briefing 3, CIPFA

This briefing focuses on discount rates, lessor accounting, disclosure requirements, concessionary leases – lessees and the measurement of the service concession arrangement (Private Finance Initiative/Public Private Partnership) liability.

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

2. NATIONAL PUBLICATIONS

3. Report on the results of auditors' work 2017/18: Principal local government and police bodies, PSAA Ltd

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers at 495 principal local government and police bodies for 2017/18.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 87 per cent of audited bodies received an audit opinion by the new deadline.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The most common reasons for auditors issuing non-standard conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates – 16 bodies;
- corporate governance issues – 12 bodies;
- financial sustainability concerns – 6 bodies; and
- procurement/contract management issues – 5 bodies.

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

2. NATIONAL PUBLICATIONS

4. Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2016/17 work.

The report sets out that:

- Mazars is meeting PSAA's standards for overall audit quality and regulatory compliance requirements;
- Mazars' combined audit quality and regulatory compliance rating was green for 2017/18;
- The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor; and
- Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green and the overall weighted audit quality score of 2.55 having increased slightly from last year's 2.45.

From its assessment of all firms, the FRC has identified key issues which firms need to address in order to improve audit quality. These were the:

- challenge and scepticism of management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;
- group audit team's oversight and challenge of component auditors;
- audit of company pension scheme assets and liabilities; and
- arrangements for ensuring compliance with the Ethical Standard and independence requirements.

Summary of PSAA annual assessments – overall combined

	BDO	EY	DT	PwC	GT	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

2. NATIONAL PUBLICATIONS

5. Consultation on 2019/20 scale of fees for opted-in bodies, PSAA Ltd

Public Sector Audit Appointments (PSAA) has published its consultation on the 2019/20 scale of fees for principal local government bodies that have opted into the appointing person arrangements.

The consultation proposes that scale audit fees for 2019/20, the second year of the five-year appointing period, should remain the same as the fees applicable for 2018/19. PSAA will review and update its assumptions and estimates each year, and consult on scale fees for the following year.

<https://www.psaa.co.uk/audit-fees/2019-2020scaleoffees/>

6. Oversight of audit quality, quarterly compliance reports 2017/18 PSAA Ltd

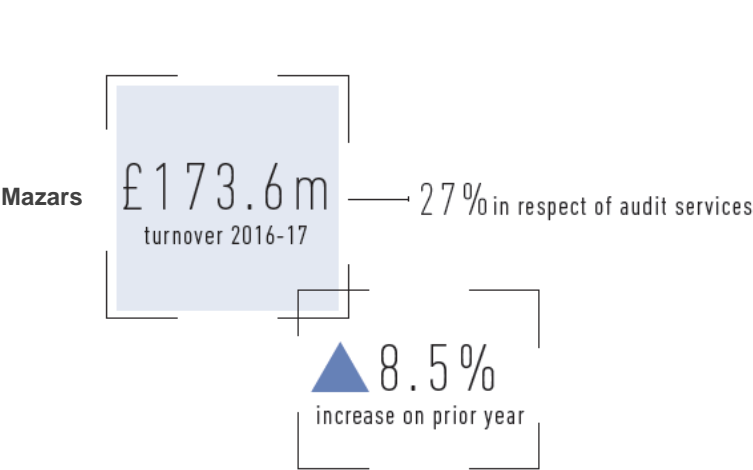
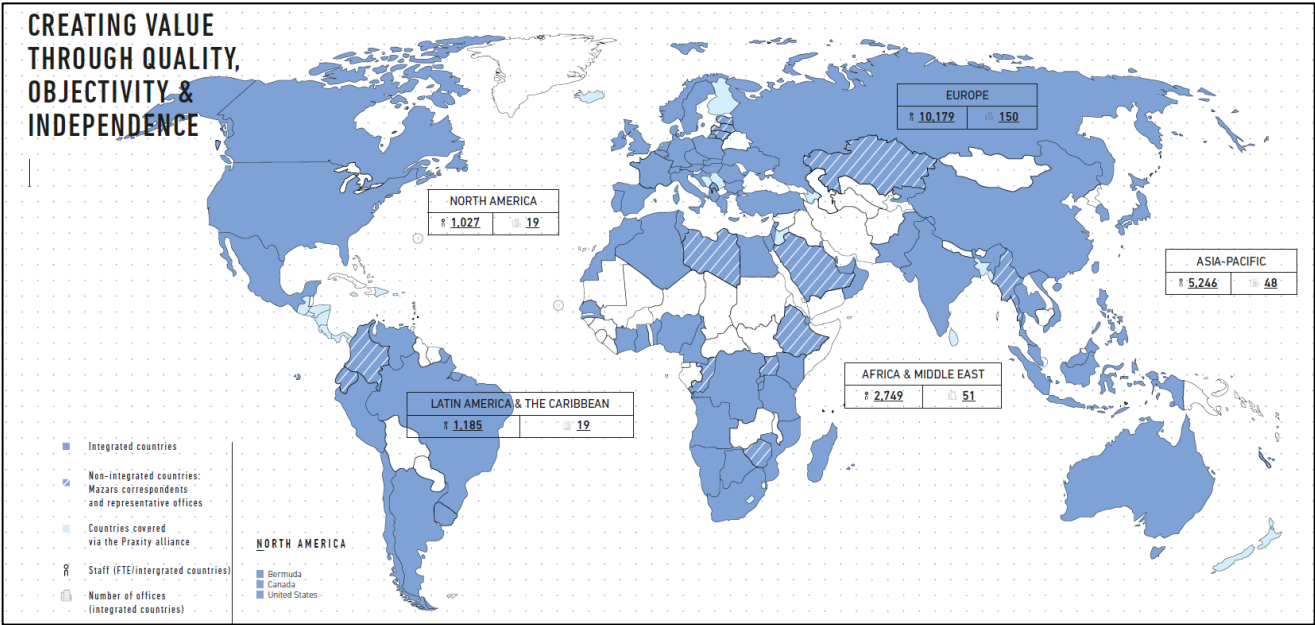
There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality>

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



As at 31 August 2017

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