

Audit Progress Report

Office of the North Yorkshire Police, Fire
and Crime Commissioner
Chief Constable for North Yorkshire

March 2021



1. Audit Progress
2. National Publications

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Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Joint Independent Audit Committee (JIAC) with an update on progress in delivering our responsibilities as your external auditors. It will be presented to the JIAC on 16 March 2021.

2019/20 Audit

We completed our external audit of the Police, Fire and Crime Commissioner and Chief Constable's 2019/20 financial statements and value for money conclusion in November 2020, signing the audit reports on 27 November 2020. On the same day, we issued a final follow up letter to our Audit Completion Report.

We are presenting the Annual Audit Letter as a separate agenda item to the JIAC on 16 March 2021 representing the final conclusion of the 2019/20 audit.

2020/21 Audit

We have commenced our initial planning for the 2020/21 audit, but due to slippage in the 2019/20 audit our detailed planning work will take place later than is normally the case. We are presenting our Audit Strategy Memorandum as a separate item to the JIAC on 16 March 2021. We hold regular discussions with the officers and these help us to keep up to date with emerging issues that may impact on our external audit.

We reported during 2019/20 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from the 2020/21 audit. The new Code changes the work that auditors will be required to do, and the related reporting, on the Police, Fire and Crime Commissioner and Chief Constable's arrangements to deliver value for money in their use of resources. We summarise the impact of these changes on the next page.

Audit Progress

External audit work on the Police, Fire and Crime Commissioner and Chief Constable's arrangements to deliver value for money in its use of resources

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on the Police, Fire and Crime Commissioner (PFCC) and Chief Constable's (CC) arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in the PFCC and CC's arrangements they should report recommendations promptly during the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** how the body ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We will keep the JIAC up to date on our progress as we complete our audit work.

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Section 02: **National Publications**

National Publications

	Publication/update	Date published	Key points	Page
National Audit Office				
1	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19.	June 2020	Guidance for audit and risk committee members	9
2	Local auditor reporting application	December 2020	Data on local auditor reporting presented through an interactive map	9
CIPFA				
3	Financial Scrutiny Practice Guide	June 2020	Guidance for audit and risk committee members	10
4	A Guide to Local Authority and Public Sector Asset Management	November 2020	Asset management guidance	10
5	Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts	January 2021	2020/21 Disclosure checklist	10
6	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts	January 2021	2020/21 Code Guidance Notes	11
7	Service Reporting Code of Practice for Local Authorities 2021/22	January 2021	2020/21 SeRCOP Guidance	11
8	Guidance for Head of Internal Audit Annual Opinions 2020/21	November 2020	Guidance	11

National Publications (Continued)

	Publication/update		Key points	Page
MHCLG				
9	Local Authority Financial Reporting and external audit: independent review	September 2020	The Redmond report	12
10	Local authority financial reporting and external audit: government response to the Redmond review	December 2020	MHCLG's response to Sir Tony Redmond's independent review	12
PSAA				
11	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	September 2020	PSAA Audit Quality report	13
Financial Reporting Council				
12	Local Audit Inspections	October 2020	FRC Audit Quality report	15

NATIONAL PUBLICATIONS

National Audit Office

1. Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, June 2020

The National Audit Office's (NAO) guide sets out that audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, making it more difficult for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.

This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide the NAO has set out some questions to help audit and risk committee members understand and challenge activities. Each section can be used on its own, although we would recommend that A&R members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as members consider reporting in the 2020-21 period when more specific and detailed reporting on the outbreak will be required.

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

2. Local auditor reporting application, December 2020

'*The local auditor reporting application*' presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

NATIONAL PUBLICATIONS

CIPFA

3. Financial Scrutiny Practice Guide, June 2020

The impact of the COVID-19 pandemic on local authority finances and uncertainty regarding the delayed fair funding review on top of a decade of progressively more significant financial constraints has placed local government in a hugely challenging position. Accordingly, CIPFA state that for the foreseeable future, local authority budgeting will be even more about the language of priorities and difficult choices than ever before.

In response CIPFA have produced guidance proposing ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that local authorities can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

4. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

5. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

<https://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print>

NATIONAL PUBLICATIONS

6. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print>

7. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

<https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122>

8. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's annual governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee, should take.

To further support the guidance CIPFA held a free webinar on 15 December.

<https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021>

NATIONAL PUBLICATIONS

MHCLG

9. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

10. MHCLG's response to Sir Tony Redmond's independent review, December 2020

MHCLG has published its response to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they “*do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission*”. They added that they “*will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function.*”

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Limited

11. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

<https://www.psaa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/>

The PSAA Press release regarding late 2019/20 opinions can be found at:

<https://www.psaa.co.uk/2020/12/news-release-2019-20-audited-accounts/>

NATIONAL PUBLICATIONS

Financial Reporting Council

12. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for '*major local audits*' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

NATIONAL PUBLICATIONS

Financial Reporting Council

12. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the Authority

Although North Yorkshire Police, Fire and Crime Commissioner and the Chief Constable for North Yorkshire are not major audits and thus not subject to FRC quality reviews we adopt a common methodology across our public sector audits. It is important to note that the FRC were satisfied with that methodology, but not the way it had been applied on the two audits sampled. Although the FRC did not finalise its report until October 2020 the key messages were conveyed in advance of 2019/20 audits, giving us time to make improvements across all local authority audits.

We take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets and the audit of defined benefit pension liabilities, we must do more to meet the regulator's expectations. This means that the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Authority's own experts. There will be consequential effects on the fee that we are likely to request from the Authority to undertake the audit.

<https://www.frc.org.uk/news/october-2020/frc-publishes-major-local-audit-inspection-results>

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