

# External Audit Progress Report

North Lincolnshire Council

May 2020





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# 1. AUDIT PROGRESS

## Purpose of this report

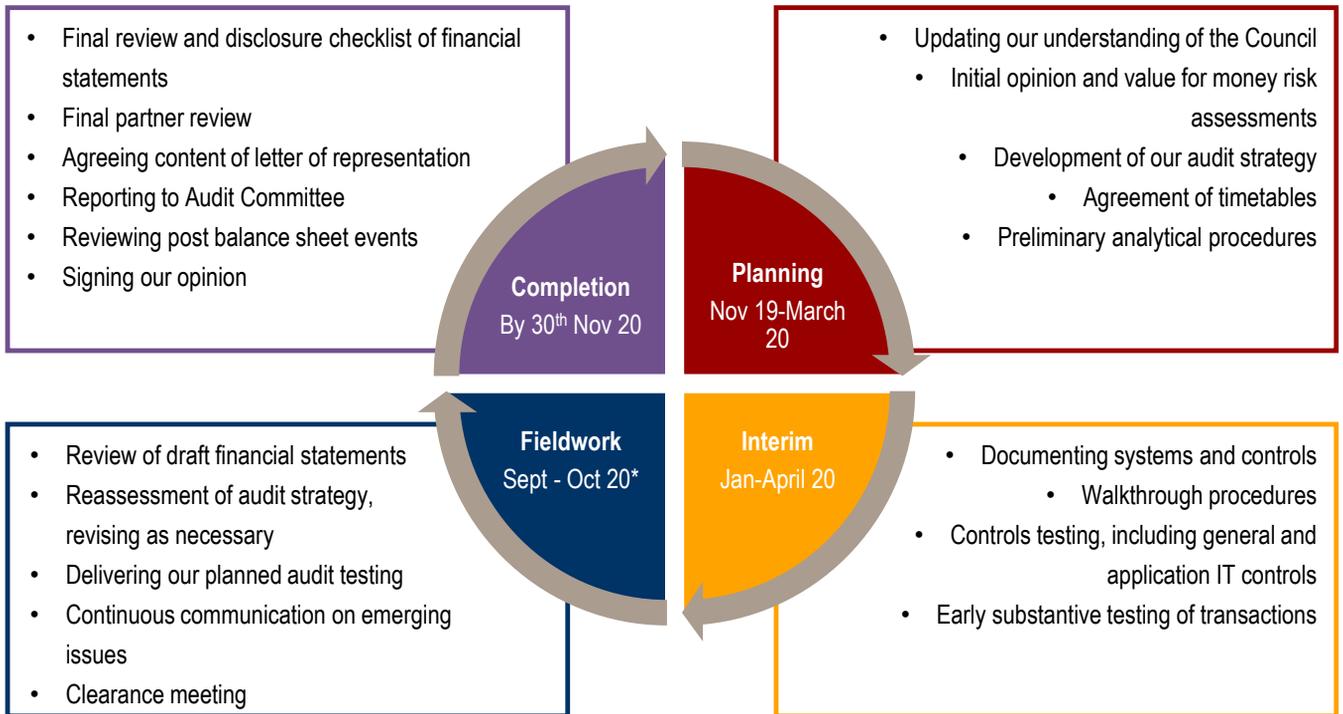
This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor as well as setting out any non-audit assurance work carried out and also summarising key national publications that may be of interest to Members.

## Audit progress

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

We have completed our planning and walkthroughs of the systems. We have also completed some early transaction testing. Our Audit Strategy Memorandum for 2019/20 has been drafted and shared with officers. Due to the Covid-19 pandemic, and the changes to Audit Committee meeting dates, we will now present the Audit Strategy Memorandum to the Audit Committee at its meeting in July 2020. Further implications of the pandemic are considered overleaf.

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



\*exact dates to be agreed

# 1. AUDIT PROGRESS

## MAZARS' RESPONSE TO COVID-19

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures 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 staff, 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 North Lincolnshire Council

All Mazars' staff moved to remote working from the 16<sup>th</sup> March 2020. We are committed to supporting the Council 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 the Council. We will maintain open communication throughout this period.

We are able to carry out the audit remotely and have 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 will maintain communication via regular webex / video calls.

### Revised deadlines, scope and testing strategy

Local government accounts deadlines have been revised; the original and revised deadlines are set out below.

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 Committee at the July 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 Committee	July 2020	TBC
Submission of final accounts and Annual Report	31 <sup>st</sup> July 2020	30 <sup>th</sup> November 2020

## 2. SUMMARY OF NATIONAL PUBLICATIONS

This section of our report contains national publications which may be of interest to the Council, 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.
2	<b>Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.</b>	This letter provides details of the changes to the timetable for accounts and audit process. It also provides further information on the public inspection period.
<b>National Audit Office (NAO)</b>		
3.	<b>Code of Audit Practice</b>	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit years.
<b>Local Government Association (LGA)</b>		
4.	<b>Guidance for Councillors</b>	Guidance to support Councillors in supporting their wards; being updated on a regular basis.
<b>Financial Reporting Council and other regulators</b>		
5.	<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. Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, *MHCLG*, April 2020

A letter from MHCLG to local authority chief executives on the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020. The key points are:

- The publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies.
- The requirement for the public inspection period to include the first 10 working days of June (for Category 1 authorities) and July (for Category 2 authorities) has been removed. Instead local authorities must commence the public inspection period on or before the first working day of September 2020. This means that draft accounts must be approved by 31 August 2020 at the latest.

## 2. NATIONAL PUBLICATIONS

### 3. 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/>

### 4. Guidance for Councillors, *Local Government Association*, March 2020

This guidance focuses on specific issues relevant to councillors' involvement in our work leading and protecting communities, as well as in delivering the full range of normal services. Inevitably, there will be significant changes to how councils manage these responsibilities over the coming months.

This guidance highlights the role that individual ward councillors can play in supporting their communities through these difficult times. More than ever before, their role as civic and community leaders requires them to offer visible, responsible leadership that links community-led support with council structures to help build and sustain our overall resilience. Using social media and other means to link with the neighbourhood support groups that have developed in recent days will be an important part of this.

<https://www.local.gov.uk/covid-19-outbreak-councillor-guidance>

## 2. NATIONAL PUBLICATIONS

### 5. 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>