

# Audit Progress Report

## Transport for the North

June 2019





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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 auditors.

## Audit progress

Since the Committee last met we have:

- Completed our detailed interim audit work including:
  - Obtaining documentation of controls for key financial systems, including undertaking walkthrough testing of key controls to confirm our understanding of those systems; and
  - Testing transactions through the year to date to reduce the level of testing required at the final audit visit, and provide interim assurance on the material correctness of income and expenditure.
- Continued to liaise with senior finance staff to clarify our requirements and expectations in respect of our 2018/19 final audit visit and to discuss key issues;
- Issued our 'Client Deliverable List' to the finance team, setting out the expected working papers and supporting information required to complete our final audit visit; and
- Continued our detailed audit work for our 2018/19 VFM conclusion;

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

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
<b>National Audit Office (NAO)</b>			
1	<b>Guidance for audit committees on cloud services</b>	Guidance on use of cloud services	5
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## 2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

### 1. **Guidance for audit committees on cloud services, April 2019**

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management at three stages:

- Assessment of cloud services – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.
- Implementation of cloud services – considering system configuration; data migration; and service risk and security.
- Management of cloud services – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

The guidance points to and complements detailed cloud guidance available elsewhere.

<https://www.nao.org.uk/report/guidance-for-audit-committees-on-cloud-services/#>

### 2. **Framework to review programmes, April 2019**

Major programmes are expensive, high profile and carry great uncertainties and risks. It is not surprising that many fall short of their objectives, in terms of cost and/or outcomes.

The NAO has completed about 140 reports on major projects and programmes since 2010. Based on this experience, this framework draws together the key questions the NAO ask when we review major programmes. It was developed for NAO value-for-money auditors to use when reviewing programmes, but may be useful for those seeking an overview of the NAO work on projects and programmes.

The questions are structured into four sections:

- Purpose: Is there a strategic need for the programme and is this the right programme to meet the business need?
- Value: Does the programme provide value for money?
- Programme set-up: Is the programme set up in accordance with good practice and are risks being well managed?
- Delivery and variation management: Are mechanisms in place to deliver the intended outcomes and respond to change, and is the programme progressing according to plan?

There are 18 key questions, each illustrated with examples of good practice and lessons learnt from previous NAO reports.

The Framework also outlines the NAO's related resources that provide further support for examining issues in more depth.

<https://www.nao.org.uk/report/framework-to-review-programmes/>

### 3. **Round-up for Audit Committees, March 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.

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

## 2. NATIONAL PUBLICATIONS - CIPFA

### 4. An introductory guide to Local Government Finance, February 2019

This introductory guide addresses the basic questions regarding how money flows, how budgets are set and where it is spent in local government. An understanding of these issues is essential to realising the current issues in local government.

This guide is aimed at helping local councillors, those working with and for local councils, and anybody with an interest in the sector to understand the complexity of local government finance.

The guide covers revenue and capital financing, financial reporting, governance and auditing as well as giving an overview of some of the key services provided by local councils.

This guide is available online only.

<https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2019>

### 5. Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20, April 2019

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2019/20 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2019.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements, as well as changes in some of accounting requirements. In particular the following areas should be noted:

- Improved clarity regarding the specification of proper accounting practices, the Code's role in these, the impact of statutory accounting requirements on the annual accounts, and the manner in which they affect the presentation of local authority reserves, including the distinction between usable and unusable reserves
- Significant amendments to Chapter Two to reflect the revisions made by the IASB to the Conceptual Framework for Financial Reporting (Conceptual Framework)
- Changes relating to the previous Carbon Reduction Commitment Scheme and Landfill Allowances Schemes
- An additional section to address the treatment of the Apprenticeship Levy
- For Scottish authorities, recognition of the ability to present transfers to or from other statutory reserves, allowance for voluntary transfers between the Revaluation Reserve and the General Fund, and pension fund legislation amendments
- For Welsh authorities recognition of legislation changes relating to separate publication of pension fund accounts
- Amendments to Section 7.1 (Financial Instruments) arising from amendments made to IFRS 9 Financial Instruments
- Changes to group accounts requirements implementing scope clarifications for disclosure requirements.

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

## 2. NATIONAL PUBLICATIONS - CIPFA

### 6. Practitioners' Guide To Capital Finance, March 2019

This publication contains the background knowledge you need on capital finance and how to account for it. It summarises the key features of the systems of capital finance that operate under the Prudential Framework in England, Wales, Northern Ireland and Scotland.

It provides explanations and definitions of capital expenditure, credit arrangements and capital financing including minimum revenue provision (MRP) arrangements and local authority borrowing.

Its intention is to assist practitioners in managing the capital programmes of their authorities and in particular addressing the technical issues associated with the financing of the programme. It summarises the key capital finance implications of the Local Government Act 2003, the Local Government Finance Act (Northern Ireland) 2011, the Local Government in Scotland Act 2003 and associated regulations.

The publication uses worked examples throughout to allow practitioners to apply theoretical concepts to practical examples. In carrying extracts from the relevant legislation and the Prudential Code, the aim has been to produce a one-stop guide for both those with previous local authority capital finance knowledge and those new to the subject.

<https://www.cipfa.org/policy-and-guidance/publications/p/practitioners-guide-to-capital-finance-2019-edition>

### 7. Local Government Application Note for the UK Public Sector Internal Audit Standards, March 2019

This Application Note is aimed at those who play a significant part in shaping or managing the internal audit function within their organisations, including:

- chief executives
- chief financial officers and other senior management
- audit committees
- selected members within local government in the United Kingdom, as well as
- chief audit executives/heads of internal audit.

UK Public Sector Internal Audit Standards (PSIAS) have been developed to apply across the whole of the public sector in all sectors of government. The PSIAS are based on standards issued by the Institute of Internal Auditors (IIA), with additional requirements and interpretations that make them directly applicable to the UK public sector. The PSIAS are developed jointly by the relevant internal audit standard setters (RIASS) for central government, local government, devolved government administration bodies and the National Health Service (NHS). The PSIAS set out requirements which apply generally to all UK public sector engagements, but do not include any sector requirements or guidance for specific parts of government.

CIPFA has been designated as the RIASS for local government. CIPFA recognises the need to supplement the PSIAS with additional information and guidance on the requirements and practice of internal audit in the local government environment, and this Application Note provides that guidance.

Included with the Application Note is an authoritative checklist for measuring the performance of internal audit against the requirements of the PSIAS and the Application Note, in line with PSIAS 1300 Quality Assurance and Improvement Programme. The checklist can be used for both the internal and external assessments required in PSIAS 1300-1322.

<https://www.cipfa.org/policy-and-guidance/publications//local-government-application-note-for-the-uk-psias-2019-edition>

## 2. NATIONAL PUBLICATIONS - CIPFA

### 8. Consultation on CIPFA's Proposed Financial Management Code for Local Government, March 2019

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, has not been supported by a professional code. CIPFA is now proposing that a Financial Management Code (CIPFA FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The CIPFA FM Code would therefore for the first time set standards of financial management for local authorities in the UK. The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- financially manage the short-, medium- and long-term finances
- manage financial resilience to meet foreseen demands on services
- financially manage unexpected shocks in their financial circumstances.

The draft FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

Significantly, the CIPFA FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control.

The draft FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making.

To date, the draft FM Code has been developed with a specified governance process which includes practitioners, auditors and representatives of governments across the UK. It was then 'road tested' by a range of local authorities to provide early evidence of both practicality and fitness for purpose. Now, CIPFA is seeking to consult more widely and consequently invites comments on the draft FM Code. Note – the consultation closed on 30 April 2019.

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

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