



National Audit Office

NAO progress update to FRAB

November 2021

Introduction

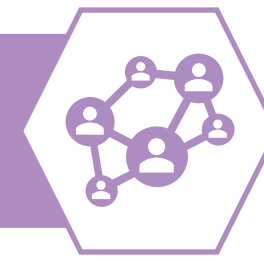
2020-21 has been another very challenging year for finance teams. Covid-19 interventions posed operational and accounting challenges for many. On top of this, teams and individuals were dealing with the impact of the pandemic, including lockdown and remote working.

With the majority of central government audits now complete this provides a brief reflections on the 2020-21 audit cycle and plans for 2021-22.

6 of the major Departments (Home Office, DWP, Cabinet Office, Department for International Trade, MHCLG and HM Treasury) laid their annual report and accounts in advance of the summer recess.

3 further Departments have subsequently laid their accounts (Department for Transport, FCDO and HMRC) with the remaining Departments due to conclude over the coming months, ahead of the statutory deadline.

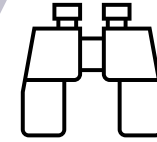
Continued response to COVID-19 (1)



COVID-19 continued to present challenges to both financial reporting, control frameworks and audit. The areas significantly impacted in 2020-21 were:

- **Fraud and error:** The series of new COVID-19 support grants, loans, income support and guarantees issued were often issued at pace increasing risk of fraud and error. There have also been increased risks of fraud and error in pre-existing schemes that have expanded to provide further COVID-19 support, for example Universal Credit. Estimated levels of fraud and error remain immature but the work of Departments has in a number of cases confirmed material levels of fraud and error are present. We have identified, in general, that fraud and error estimates have exceeded the rates forecast at the beginning of schemes and there have been delays in setting up detective frameworks to determine the actual levels of fraud and error.
- **IFRS 9:** Some COVID-19 policy responses have highlighted the more bespoke public sector applications of IFRS 9. Many loans and guarantees have been issued at a transaction price below that we would see in the commercial market. This has led to some reflection on how to account for this difference. We have also seen government issue payment holidays to some debtor classes, particularly where the counterparties are individual citizens. Such activity is relatively unusual in a commercial environment and combined with the other macroeconomic uncertainty associated with the pandemic has made expected credit loss estimates even more uncertain.
- **Property Valuations:** The property market regained liquidity and professional valuers removed the material uncertainties clauses present in most valuation reports as at 31 March 2020. As a result, few emphases of matter paragraphs were issued on property valuations for 2020-21.
- **Delayed conclusions:** There are still some aspects of the 2020-21 financial reporting cycle and the associated COVID-19 impacts that have not yet been concluded, in particular the audits of the Department for Business Energy and Industrial Strategy and the Department for Health and Social Care. We anticipate further qualified opinions in relation to the accounting for and regularity of COVID-19 interventions are still to come.
- **Capacity:** Despite enormous effort and commitment, operational demands, including the support for the COVID-19 response such as redeployment of people, combined with disruption to working placed strain on finance teams and audit teams. This strain contributed to capability and capacity issues.

Our priorities - Looking ahead to 2020-21



Looking forward to 2021-22 we anticipate focus in the following areas:

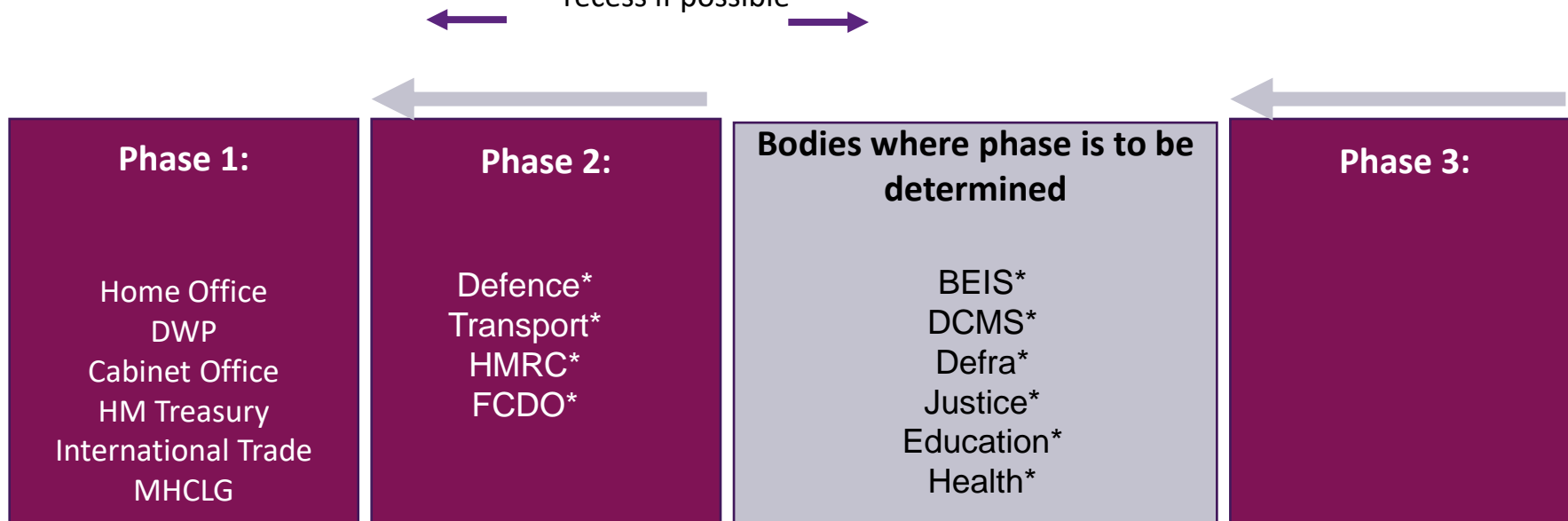
- The Public Accounts Committee have set out the importance of timely accountability and we will be focusing on return to a pre-recess timetable for all Departmental accounts where this is possible.
- We anticipate that the coming year will see an increase in in-person auditing. We will make decisions based on a set of principles, to ensure safety and security of individuals, to ensure the achievement of quality audits and to be most effective.
- 2021-22 will be a year where we continue to focus on the effects of COVID-19, in particular reviewing more mature estimates of fraud and error, and seeking to resolve asset related qualifications where there has been a limitation on evidence available to support the position at 31 March 2021.
- 2021-22 is also the year that bodies who have not yet implemented IFRS 16 will be making their final preparations for IFRS 16 implementation, audit teams will be reviewing IAS 8 disclosures and accounting policy choices.

Indicative plans for 2021-22 publications

Phase 1: Accounts that should maintain a timetable to allow for laying and publication ahead of the Parliamentary summer recess

Phase 2: Accounts where the NAO and Departments can work together to allow for laying and publication ahead of the Parliamentary summer recess – we would like all Departmental accounts to lay and publish pre-recess if possible

Phase 3: Accounts where the NAO and Department should be able to work together to allow for earlier laying and publication in September 2021, but where pre-recess in this year may remain unachievable



May 2022

June 2022

July 2022

August 2022

September 2022

October 2022

* denotes post-summer recess delivery in 2021