National Audit Office

INSIGHT

NAO Update:

User and Preparer Advisory Group

11 April 2024

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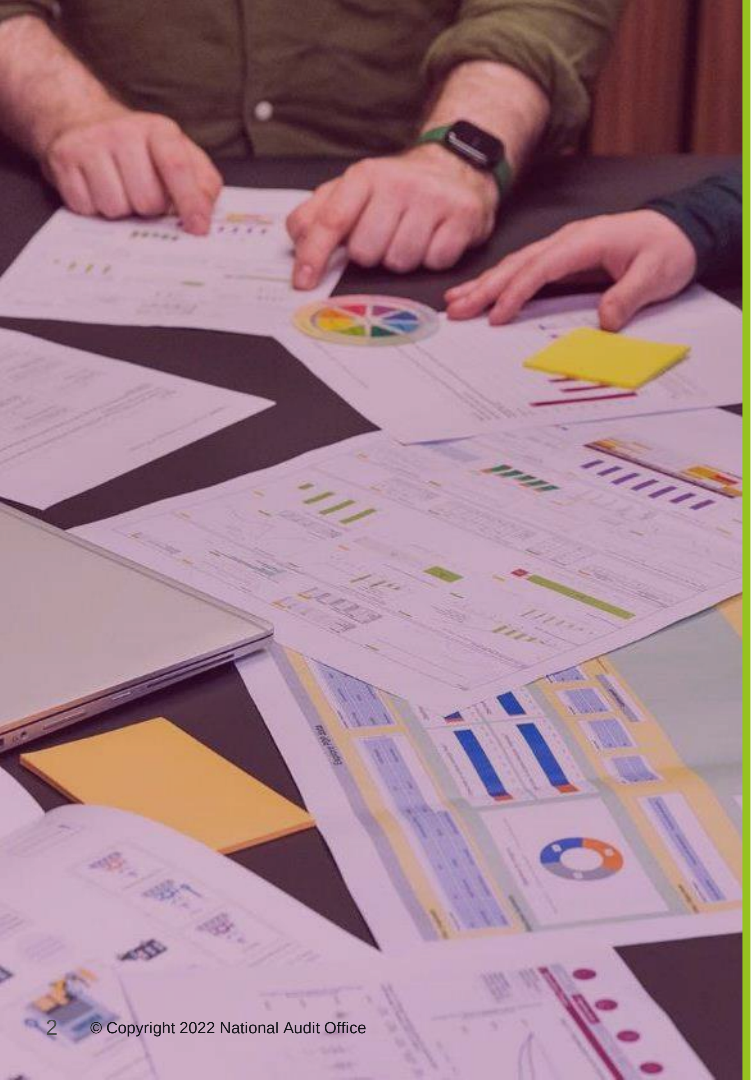

1. Returning audits to pre-recess timetables – progress and next steps
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Returning audits to pre-Recess timetables

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The NAO is continuing to work with audited bodies to secure earlier publication of Annual Reports and Accounts, returning to pre-pandemic timetables

35%*

2019-20 (July 2020)

Pre-recess:
- DWP
- Home Office
- Cabinet Office
- International Trade
- FCO/DfID (now FCDO)

Post recess:
- HM Treasury
- Defence
- Transport
- BEIS
- HMRC
- Justice
- DCMS
- Education
- Defra
- Health
- MHCLG (now DLUHC)

42%**

38%*

2020-21 (July 2021)

Pre-recess:
- Home Office
- DWP
- Cabinet Office
- International Trade
- **HM Treasury**
- **MHCLG(now DLUHC)**

Post-recess:
- Defence
- Transport
- BEIS
- HMRC
- FCDO
- Justice
- DCMS
- Education
- Defra
- Health

55%**

56%*

2021-22 (July 2022)

Pre-recess:
- Home Office
- DWP
- International Trade
- HM Treasury
- DLUHC
- **Defence**
- **Transport**
- **HMRC**
- **FCDO**

Post recess:
- Cabinet Office
- BEIS
- Justice
- DCMS
- Education
- Defra
- Health

53%**

56%*

2022-23 (July 2023)

Pre-recess:
- DWP
- HM Treasury
- International Trade
- DLUHC
- Defence
- Transport
- HMRC
- FCDO
- **Education**

Post recess:
- BEIS
- Justice
- DCMS
- Defra
- Health
- Cabinet Office
- Home Office

60%**

71%*

Target 2023-24 (July 2024)

Pre-recess:
- DWP
- HM Treasury
- DLUHC
- Defence
- Transport
- HMRC
- FCDO
- Education
- Home Office
- Cabinet Office
- DSIT
- DESNZ

Post recess:
- DBT
- Justice
- DCMS
- Defra
- Health

70%**

* % main departments certified or to be certified pre-recess

** % all accounts certified or to be certified pre-recess

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Returning audits to pre-Recess timetables

We are taking the following actions to support returning audits to pre-Recess timetable:

Working with audited bodies to address issues early and de-risk accounting production and audit timetables, including supporting understanding of changes in auditing standards (such as ISA 315) and evolving audit quality expectations.

Investing in our people increasing NAO headcount to make sure capacity to deliver.

Working with private sector partners to provide additional peak capacity, both in terms of NAO direct delivery of audits and outsourced audits.

Investing in audit technology and transforming our audit approach providing opportunities for higher quality assurance, greater audit efficiency and shared insight for audited bodies.

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2022-23 Reflections

Business Process Risk:

Implementation of ISA 315 (revised) has led to identification of new areas of risk linked to weakness in business process. E.g. Control and cleansing over records for assets under construction.

Findings will focus on process improvement.

Quality of financial statements:

Pressure on finance teams to deliver against increasing complexity / expectation.

Lateness or quality of evidence impacting timeliness and cost in some cases, including on:

- adoption of new standards (leases)
- New systems implementation
- Delivery of Annual Report.

Flow of assurances:

Delays in reporting in local government and health are impacting the flow of assurances. Health of local audit system is a key focus for DLUHC, FRC, NAO and CIPFA.

Group entities need to focus on:

- early consideration of alternative assurances; and
- critical path planning.

Regularity issues:

Increase in breach of Cabinet Office controls giving rise to qualification – importance of preventative controls.

Continued focus on rates of fraud and error in, including prevention by design.

Inadequate consideration of need to consult HMT where potentially novel and contentious.

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2022-23 Disclosure Reflections

Scalability of disclosures:

We have had correspondence and messages from preparers and those charged with governance that the requirements of preparer teams can be disproportionate particularly for small ALBs where their finance teams are scaled accordingly.

Requirements include those set out in the FReM, PES paper on Annual Report preparation and government functional standards.

Fair pay disclosures:

Fair pay and remuneration reporting are areas where we receive a high volume of central queries on how the guidance should be applied or interpreted.

Given the nature of the disclosures these are in areas where there is a low tolerance for improper presentation.

IFRS 16 Transition:

2022-23 was the year most of central government implemented IFRS 16.

Consequently, this was an area of disclosure challenge both in relation to the required transition disclosures and the year-on-year requirements.

We expect that application will normalise for 2023-24 as the reporting becomes business as usual.

Changing audit landscape

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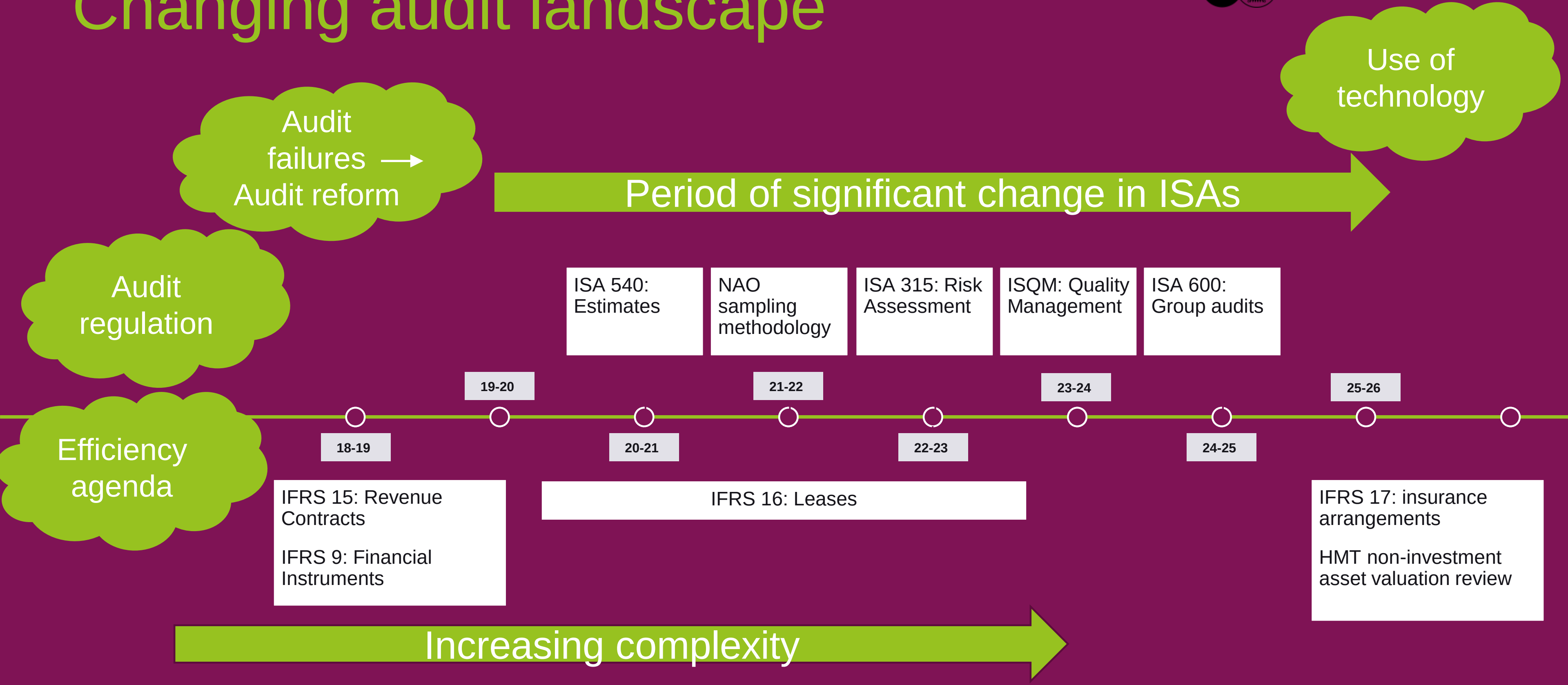

Forward look

Financial Reporting & Auditing Developments:

Further changes financial reporting in 2025-26:

- IFRS 17: Insurance arrangements
- Non-investment asset valuations (subject to finalisation)

Importance of early preparation.

Expect dynamic environment for auditing standards including:

- New requirements for Group audits (ISA 600)
- Response to use of technology

Sustainability Reporting:

TCFD aligned reporting: staged implementation over 3 years.

Need to consider maturity of reporting systems / controls.

Fast changing landscape for sustainability reporting and assurance.

Importance of consistency between annual report and financial statements.

Cash flow statements:

The cashflow statement has recently been an area of increased audit regulator focus.

We are increasing our scrutiny on this statement.

In 2023-24 we are implementing new testing procedures and expect teams will be more challenging on the classification and preparation of this statement.

Financial Instruments disclosures:

The revised ISA 315 has reaffirmed the expectation that disclosures are as important from an audit perspective as figures included in primary statements.

There are a lot of additional disclosures in respect of Financial Instruments.

We are expecting to focus on the appropriate reporting of financial instrument disclosures in 2023-24.

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Thank you