

Working well with Auditors

HFMA pre accounts planning conference 2024

22 February 2024

Agenda

1. Who are we?
2. What's an audit?
3. Good practice in working together
4. Areas of audit focus
5. Q&A

About Mazars

Our purpose: To help build the economic foundations of a fair and prosperous world by caring for the success of our people and clients, the health of financial markets, and the integrity of our industry.

We are:

- an International Audit, Tax and Advisory firm
- valued by our clients
- empowered by our people and;
- delivering trust to society through excellent quality.

Our vision

- Our vision is to strengthen the UK's public services, allowing it to be effective in its responsibility for public money and aiding its ability to deliver the services that benefit our communities the most.
- We're on a mission to play our part in developing strong, resilient and sustainable public services that benefit all, and make the UK a better place to live, work and thrive.

We do this by:

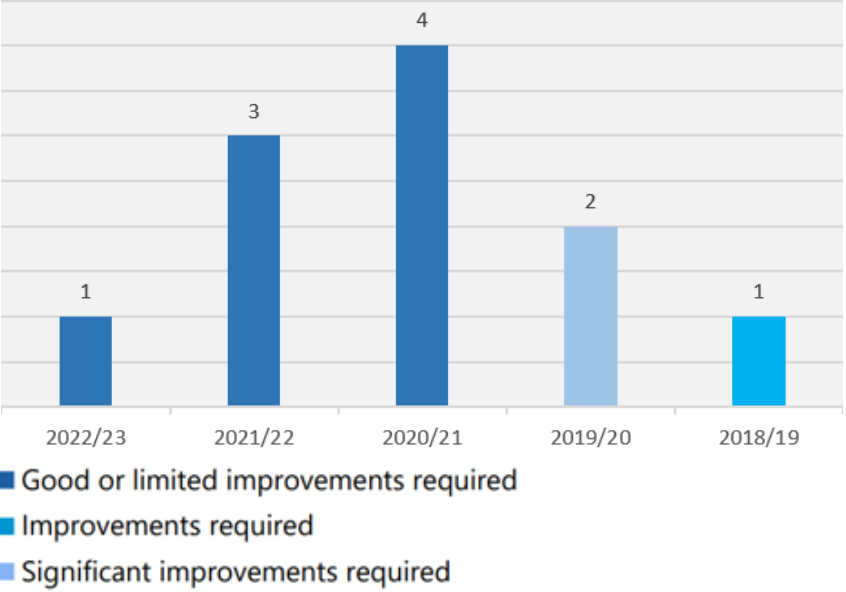
- Advising and supporting our clients when they need our help;
- Providing confidence in public spending and decision making through audit and assurance; and
- Holding the sector to account by pointing out when clients get it wrong.

Regulation of Public Sector Audit

FRC Major Local Audit Quality Inspection Report

Mazars LLP

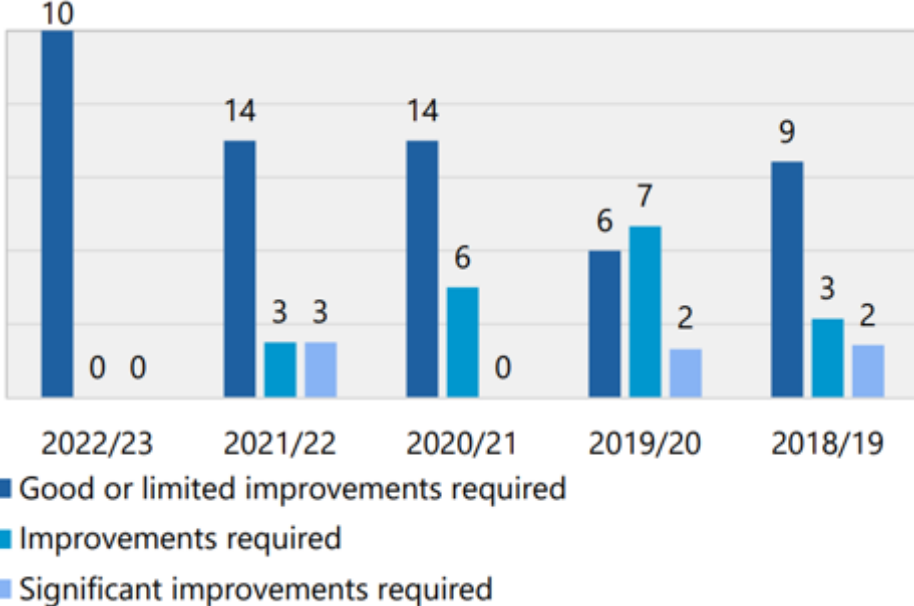
Our assessment of the quality of financial statements audits



100%
 At Mazars LLP, all financial statement audits inspected during last three years were assessed as good or limited improvements required.

FRC

Files selected for audit quality review



What is an Audit?

Introduction

All trusts, foundation trusts and ICBs are required to produce a set of financial statements, have them audited, and publish them as part of their Annual Report and Accounts

Auditor responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO').

Scope of the audit

- Opinion on the financial statements
- Conclusion on the Value for Money arrangements
- Wider reporting responsibilities

Who we report to

Committee	
Audit Committee	We present an Audit Plan, and then regularly update on progress against that plan and our findings to the Audit Committee
Board	The Audit Committee uses our work to provide assurance to the Board. Occasionally, we may report directly to the Board.
Governors	Annually, we issue a summary of work and findings to the Governors

Scope of work

Opinion on the financial statements

We carry out our audit in accordance with the requirements of the Code of Audit Practice and International Standards on Auditing (ISAs).

In our opinion, the financial statements:

- give a true and fair view of the financial position of the entity as at 31 March 2024 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual 2023/24; and
- have been properly prepared in accordance with the requirements of the NHS Act 2006.

Conclusion on Value for money arrangements

We are required to consider whether the entity has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We report against the following criteria:

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

Wider scope reporting

The NHS Act 2006 provides auditors with specific powers where matters come to our attention that, in our judgement, require specific reporting action to be taken. We have the power to:

- Statutory recommendations (not FTs)
- issue a report in the public interest; and
- make a referral to the regulator (Section 30 / schedule 10 – where a body or officer has, or is about to commit, an unlawful act)

We are also required to report if the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the entity.

Good practice in working together

Good Practice in Working Together

Communication

- Regular Meetings
- Discuss issues throughout year (no surprises at year end)
- Audit Committee papers/
Attendance at Committee & Board meetings.
- During audit
 - Keep track of papers and queries
 - Meetings as needed (weekly?)
- Post audit debrief

Planning

- Start as early as possible
- Agreed detailed timetable internally and share with finance team
- Audit is for the whole finance team and beyond
- PBC list provided with priorities based on audit phases.
- Early testing if possible/Stock take

Evidence

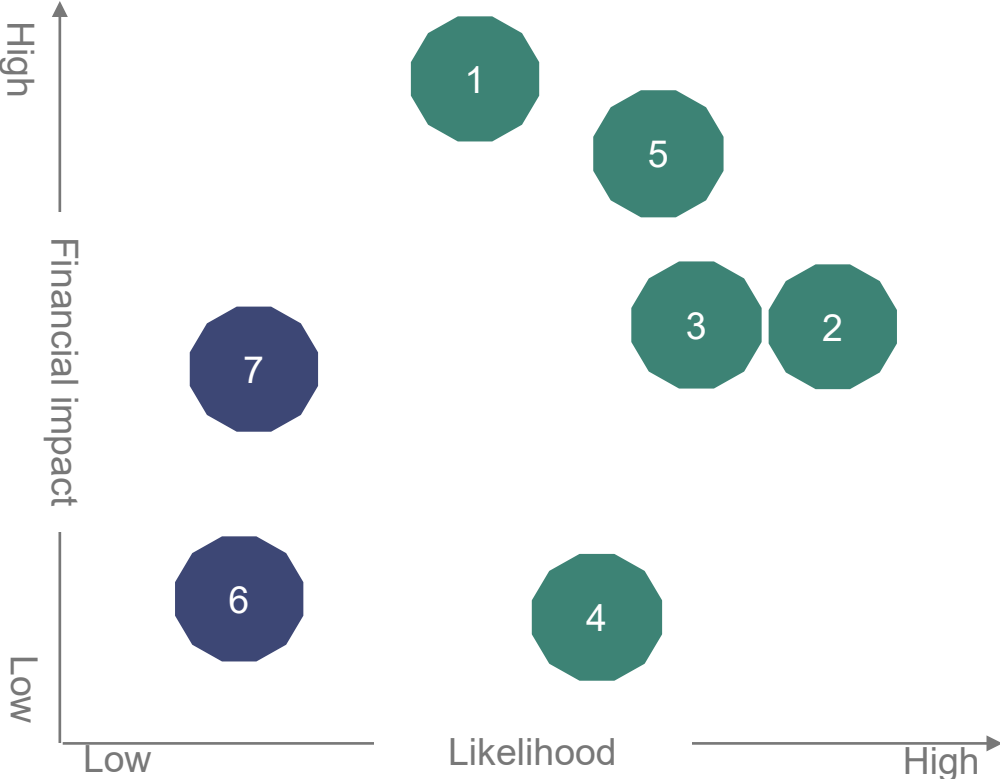
- Provide working papers early, if possible, e.g. Bank recs.
- High quality working papers
 - Ready at draft submission.
 - If not confirm when.
- Internal Quality Assurance
- Working paper progress tracker
- Amendments Draft → Final
 - keep a log

Areas of audit focus

Areas of auditor focus

- Context
- New accounting & auditing standards
- Assessment of areas most susceptible to the risk of material misstatement either due to fraud or error
- Common areas of interest
 - New and significant items
 - Judgements and estimates
 - Going Concern

Typical audit risk profile



	Risk	ICB	Provider Trust
1	Management override	Yes	Yes
2	Revenue recognition	No	Maybe
3	Expenditure recognition	Yes	Maybe
4	Related Parties	Maybe	Unlikely
5	Valuation of land & buildings	No	Yes
6	IFRS 16 Implementation (PFI/LIFT)	No	Maybe
7	Recognition of capital expenditure and incorrect capitalisation of revenue spend	No	Maybe

Typical audit risks

Management override of controls

- Mandatory risk on all audits - per auditing standards (ISA240)
- Audit procedures include accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Revenue and Expenditure Recognition

- Presumed but rebuttable risk at all bodies (per ISA240)
- Public sector application of practice note 10
- Particular focus on income / debtors and expenditure / creditors in areas of judgement or uncertainty such as risk shares

Asset valuations

- Highly material figures with inherent estimation uncertainty and judgement (has its own ISA)
- Complex and subjective judgements on asset lives and Modern Equivalent Assets (alternative sites, size and specification)
- Uses experts (has 2 ISAs!)
- Does management understand what the valuer has done?
- Requirement of the auditor to understand and challenge what the valuer has done, possibly involving their own valuation expert

Other areas of auditor focus

New and significant items

- To understand new, significant or unusual transactions and the impact on the financial statements e.g. new arrangements, JV, RPT, application of new accounting standard (e.g. IFRS16 PFI), change in APs / key judgements / estimates
- Early engagement / testing

PFI

- Subject to IFRS 16 applicability from financial year 2023-24

Judgements & estimates

- Often complex and subject to management bias and can't agree back to an invoice
- Principles can usually be looked at early in the process

Key auditor questions:

- Are assumptions appropriate. Are changes from the prior period appropriate?
- Have other assumptions been considered?
- Do judgements made in selecting and applying estimates give rise to indicators of possible management bias?
- Are significant assumptions consistent with each other and with the auditor's knowledge?
- Whether management has the intent to carry out the specific courses of action and has the ability to do so?

And:

- Same challenges apply to data selected to drive an estimate
- An auditor may use different assumptions or data available to them to corroborate management's judgements
- An auditor will test underlying data.

Question & discussion



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