

# New Value for Money arrangements approach

January 2021



# Agenda

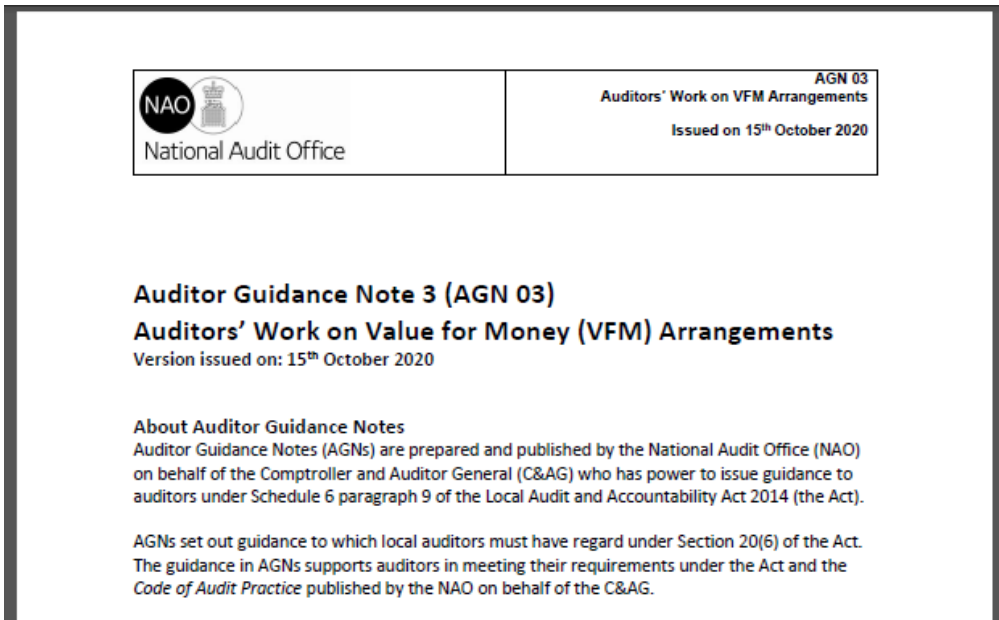
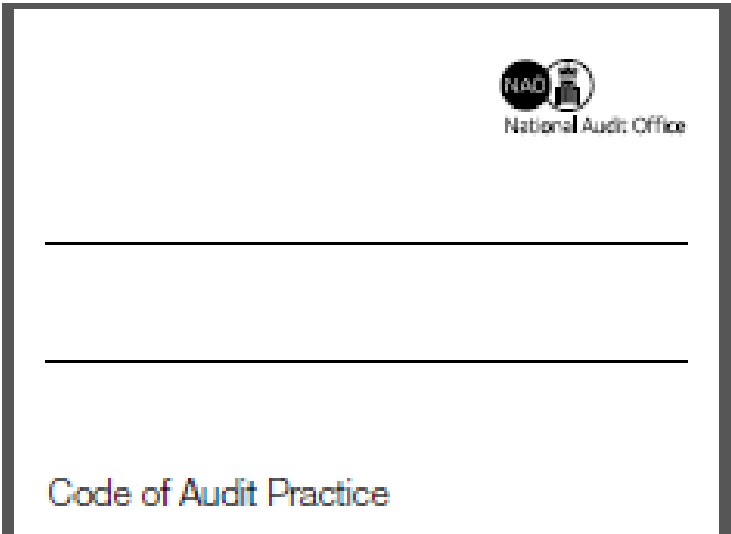
1. Updated approach
2. Key areas of focus under updated approach
3. Comparison of previous and new approach
4. Summary and next steps

# VfM arrangements

## Refreshed and refocused

### New VfM approach – why?

- Feedback from audited bodies and other stakeholders on previous VfM approach
- New Code of Practice
- Changes in the environment (new areas of focus)

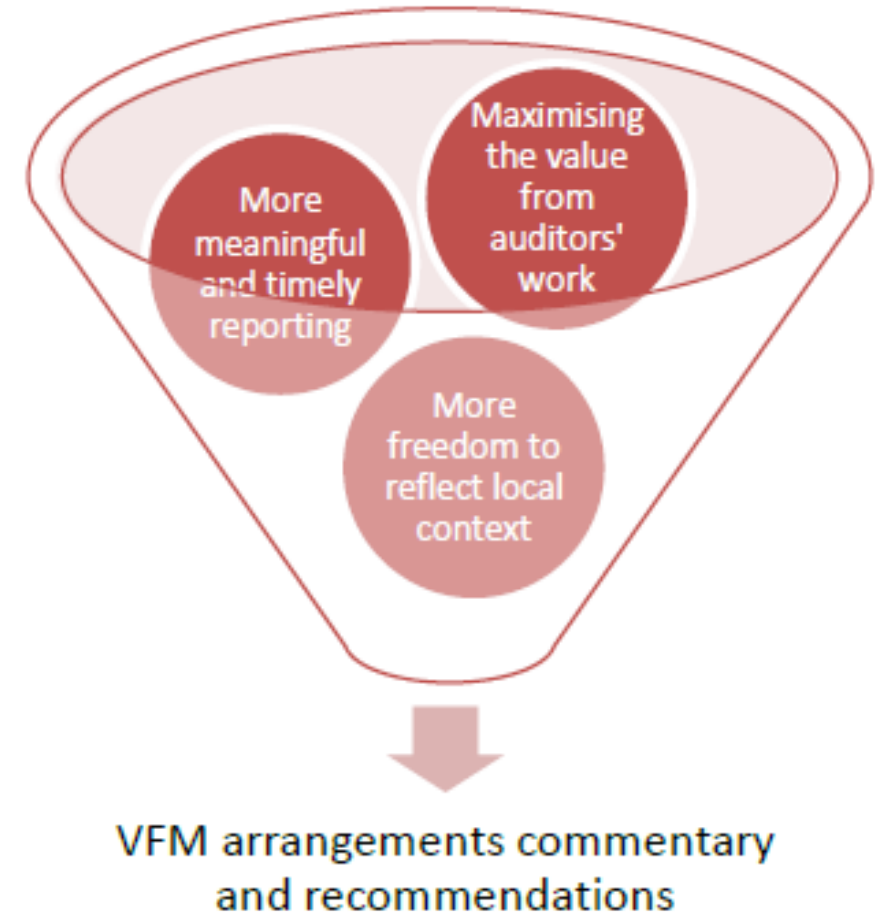


# VfM arrangements

## Refreshed and refocused

### Key areas of focus under the new approach

- More timely reporting of any significant weaknesses – recommendations at any time
- No longer a binary qualified / unqualified (i.e. no 'except for' or 'adverse' VfM conclusions)
- Linked to new reporting format – Annual Auditor's Report



# VfM arrangements

## Comparison of previous and new approach

Previous approach	New approach
<p>Qualified / unqualified</p> <ul style="list-style-type: none"><li>• Qualified - except for' and 'adverse'</li></ul>	<p>Auditors must report when they are not satisfied that arrangements are in place.</p> <p>Where weaknesses are identified, recommendations are expected at any time of the audit.</p>
<p><b>Overall criterion</b></p> <p>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p>	<p>No overall criterion given – but proper arrangements is still a key phrase – still about arrangements in place to secure the 3 Es in the use of resources.</p>
<p><b>Three criteria</b></p> <ul style="list-style-type: none"><li>• informed decision making</li><li>• sustainable resource deployment</li><li>• working with partners and other third parties</li></ul>	<p><b>Three criteria</b></p> <ul style="list-style-type: none"><li>• governance</li><li>• financial sustainability</li><li>• improving the 3Es – economy, efficiency and effectiveness</li></ul>
<p><b>Annual Audit Letter</b></p>	<p><b>Auditor's Annual Report (Annual Audit Letter in the NHS)</b></p>
<p><b>Timing of publication: AAL published after the opinion</b></p>	<p><b>Timing of publication: same time as opinion</b></p> <p>The 2020 Code states in paragraph 4.6 that <i>“the auditor’s annual report should be published at the same time as the opinion on the financial statements for local NHS bodies. For relevant authorities other than local NHS bodies, the auditor’s annual report should be published no later than 30 September.</i></p>

# VfM arrangements

## Comparison of previous and new approach

Previous approach	New approach
Summary commentary for VfM criteria	Enhanced commentary for VfM criteria (NOT just a description)
<p><b>Subject Matter – Definitions of Proper Arrangements</b></p> <p>19. The subject matter for the purposes of auditors’ work under this AGN is a local body’s arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’.</p> <p>This AGN sets out the arrangements that fall within the scope of ‘proper arrangements’.</p>	No change
<p>Auditor’s approach</p> <ul style="list-style-type: none"> <li>• planning;</li> <li>• additional risk-based procedures and evaluation; and</li> <li>• reporting.</li> </ul>	No change
<p><b>Significant risks</b></p> <p>An auditor’s assessment of what is a significant risk and the amount of additional audit work required to adequately respond to the risk is a matter of professional judgement, and is based on their evaluation of the subject matter in question. In determining whether a risk is significant, auditors should consider both the significance of sums involved along with wider, qualitative aspects, such as the risk of an adverse impact on the delivery of a major service or the impact on an audited body’s reputation.</p>	No change

# VfM arrangements

## Comparison of previous and new approach

Previous approach	New approach
<p><b>COVID-19</b></p> <p>The previous AGN 03, issued on 16 April 2020 clarified that “only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion”.</p>	<p><b>Major incidents and assessment of significant weakness</b></p> <p>To inform their 2020-21 work on arrangements, auditors will therefore need to consider how bodies’ arrangements have adapted to respond to the new risks they are facing from 2020-21 onwards as a result of the pandemic, including clearly setting out whether they have identified any significant weaknesses in those arrangements.</p> <p>In doing this, the auditor’s risk assessment will need to recognise that some bodies may have needed to review and adjust performance targets and internal governance arrangements on an ongoing basis to adapt.</p> <p>Failure to achieve original targets or comply with previously existing governance arrangements may therefore not in themselves indicate a significant weakness but may still be relevant to the auditor’s commentary.</p>

# VfM arrangements

## Previous and new criteria

Previous criteria	New criteria
<p><b>Informed decision</b> making</p> <ul style="list-style-type: none"> <li>• Acting in the public interest, through demonstrating and applying the principles and values of sound <b>governance</b></li> <li>• Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions</li> <li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• <b>Managing risks effectively and maintaining a sound system of internal control</b></li> </ul>	<p><b>Governance:</b> how the body ensures that it makes <b>informed decisions</b> and <b>properly manages its risks</b>, including:</p> <ul style="list-style-type: none"> <li>• <b><u>Risk and internal controls:</u></b> how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;</li> <li>• <b><u>Budget:</u></b> how the body approaches and carries out its annual budget setting process;</li> <li>• <b><u>Budgetary control:</u></b> how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;</li> <li>• <b><u>Informed decisions:</u></b> how the body ensures it makes properly <b>informed decisions</b>, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and</li> <li>• <b><u>Governance standards:</u></b> how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).</li> </ul>



# VfM arrangements

## Previous and new criteria

Previous criteria	New criteria
<p><b>Sustainable resource deployment</b></p> <ul style="list-style-type: none"><li>• <b>Planning finances</b> effectively to support the <b>sustainable delivery of strategic priorities and maintain statutory functions</b></li><li>• Managing and utilising assets effectively to support the delivery of strategic priorities</li><li>• Planning, organising and developing the <b>workforce</b> effectively to deliver strategic priorities</li></ul>	<p><b>Financial sustainability:</b> how the body plans and manages its <b>resources</b> to ensure it can continue to deliver its services, including:</p> <ul style="list-style-type: none"><li>• <b>MTFS inclusion of financial pressures:</b> how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium -term plans and builds these into them;</li><li>• <b>Funding gaps &amp; savings:</b> how the body plans to bridge its funding gaps and identifies achievable savings;</li><li>• <b>Strategic financial planning:</b> how the body <b>plans finances</b> to support the <b>sustainable delivery of services in accordance with strategic and statutory priorities</b>;</li><li>• <b>Financial plans links with other plans:</b> how the body ensures that its financial plan is consistent with other plans such as <b>workforce</b>, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and</li><li>• <b>Assumptions:</b> how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.</li></ul>

# VfM arrangements

## Previous and new criteria

Previous criteria	New criteria
<p><b>Working with partners and other third parties</b></p> <ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities</li><li>• <b>Commissioning services</b> effectively to support the delivery of strategic priorities</li><li>• <b>Procuring</b> supplies and services effectively to support the delivery of strategic priorities</li></ul>	<p><b>Improving economy, efficiency and effectiveness:</b> how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:</p> <ul style="list-style-type: none"><li>• <b><u>Financial and performance management:</u></b> how financial and performance information has been used to assess performance to identify areas for improvement;</li><li>• <b><u>Performance management:</u></b> how the body evaluates the services it provides to assess performance and identify areas for improvement;</li><li>• <b><u>Effective partnerships:</u></b> how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and</li><li>• <b><u>Effective commissioning &amp; procurement:</u></b> where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.</li></ul>

# VfM arrangements

## Refreshed and refocused approach

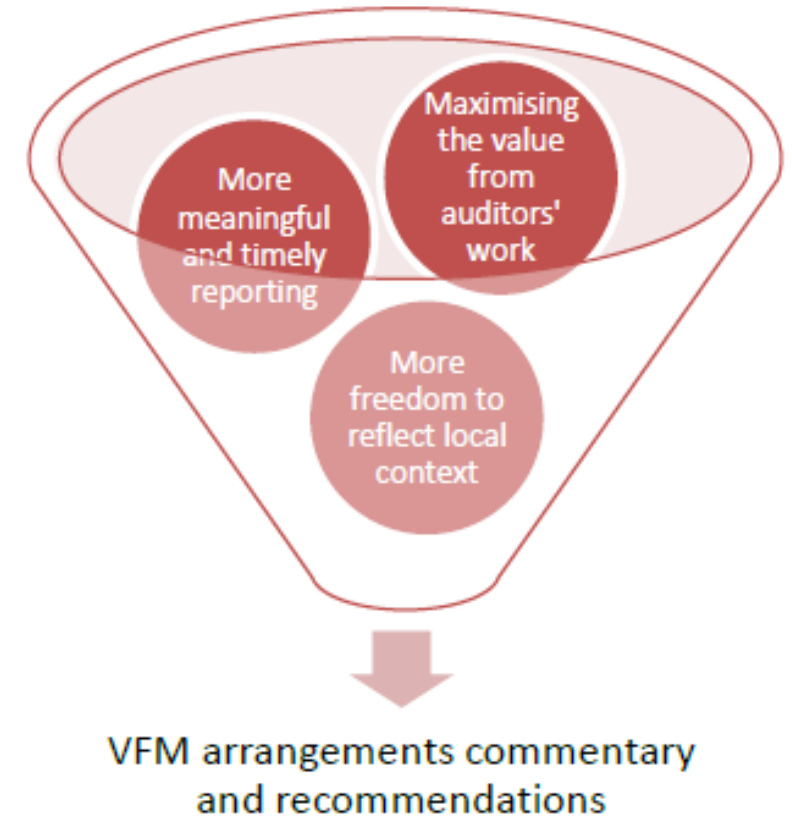
### Summary and next steps

#### Summary

- Updated approach
- Key areas of focus under updated approach – new criteria: refreshed and refocused
- Comparison of previous and new approach – enhanced narrative, more timely reporting

#### Next steps

- Risk assessment being carried out
- Agree approach to obtaining more information for any gaps in our knowledge
- Reporting to Audit Committees



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