

Durham County Council

Audit Progress report

May 2013

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1. Introduction

The purpose of this report is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. For the benefit of any new members we have also taken the opportunity to include some background information on auditors' and audited bodies' responsibilities which we hope you find helpful.

This report also seeks to highlight key emerging national issues and developments which may be of interest to Members.

If you require any additional information, please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

2. Progress on the 2012/13 audit

Good progress has been made on the audit for 2012/13. Since the initial planning work we have:

- documented and reviewed your material financial systems;
- performed an IT risk assessment; and
- tested efficiency savings and considered quarterly outturn reports to Cabinet, feeding into our Value for Money (VfM) conclusion work.

In the period between now and the start of detailed work in July to September, we will:

- finalise residual interim work;
- liaise with key staff with regard to the production of the 2012/13 financial statements;
- submit the National Fraud Initiative (NFI) risk assessment: as required by our regulator, the Audit Commission, we review the Council's progress in addressing any 'matches';
- complete any other returns as required by the Audit Commission; and
- continue our ongoing work feeding into the VfM conclusion work (including progress in achieving efficiency savings planned and developing a strategy for savings required).

Significant issues arising from work to date

We are required to report any significant deficiencies in internal control that we become aware of to 'those charged with governance' (i.e. the Audit Committee). We have only two issues to report at this stage:

- journals: we have raised in previous years the lack of authorisation of journals and the failure to retain supporting documentation. Officers have agreed to authorise all journals with a value greater than £1m and to retain supporting documentation where possible within Oracle prior to upload into the ledger; or to retain outside Oracle if not;
- bank reconciliations: we mentioned in our Audit Strategy Memorandum (see below) at the last meeting the failure to routinely prepare timely bank reconciliations from May to December 2012. We are pleased to note that these reconciliations have now been completed and indeed are up to date with the March 2013 bank reconciliation now ready for our review.

Audit Strategy Memorandum 2012/13

For the benefit of new Audit Committee members, we refer you to our Audit Strategy Memorandum, which was considered by the Audit Committee in April 2013, for full details of our planned 2012/13 work.

The Audit Strategy Memorandum sets out:

- the scope of our 2012/13 audit;
- significant risks identified and what impact these will have on our audit work;
- how and what work we plan to carry out (including the use of experts, both management's and our own e.g. the actuary and valuer);
- timeline for work and reporting requirements; and
- how we will communicate with the Audit Committee and senior officers throughout the year, including the importance of two-way communication.

3. Summary of Auditors' and Audited Bodies' Responsibilities

The Audit Commission, as regulator of local public sector audits, has previously set out in a statement, a summary of the responsibilities of auditors and audited bodies. For the benefit of any new members we have summarised some of the key points below. The full statement '*Statement of Responsibilities of Auditors and Audited Bodies, Local Government – March 2010*' is available on the Audit Commission's website: <http://archive.audit-commission.gov.uk/auditcommission/sitecollectiondocuments/MethodologyAndTools/Guidance/20100310lgstatementofresponsibilities.pdf>

Key points from the Audit Commission's statement

- **Responsibilities in relation to the financial statements**
 - Audited bodies' responsibilities: put in place and review the effectiveness of its system of internal control, maintain proper accounting records, prepare 'true and fair' financial statements, publication of a statement of internal control (now called the 'Annual Governance Statement').
 - Auditors' responsibilities: subject to the key concepts of materiality and assessment of risks, provision of reasonable assurance that the financial statements are free from material misstatement (whether caused by fraud or error) and compliance with relevant reporting requirements.
- **Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources:** the 'Value for Money conclusion'.
 - Audited bodies' responsibilities: to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and to regularly review the adequacy and effectiveness of them.
 - Auditors' responsibilities: to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with regard to the criteria specific by the Audit Commission.
- **Specific powers and duties of auditors:** auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, for local authorities, electors' rights. These include:
 - 'public interest reports';
 - advisory notices or application to the court for a declaration that an item of account is unlawful; and
 - application for judicial review with respect to a decision of an audited body or a failure of an audited body to act.

- **Reporting the results of audit work:** specific reporting requirements for auditors, ranging from an audit planning document to the final report for the year - the Annual Audit Letter.
There are also specific requirements under auditing standards for auditors to report 'significant deficiencies' in internal control they become aware of, whether via their own work or that of Internal Audit.
- **Ad hoc requests for auditors' views:** including the importance of auditor independence.
- **Grant claims and returns – certification:** for Durham County Council, there are four returns only currently subject to certification, with the auditor being required to issue a formal annual report after certifying the grants.
 - Housing and Council tax benefit subsidy;
 - Pooling capital receipts,
 - Teachers' Pensions return; and
 - NNDR return.
- **Access to information, data security and confidentiality:** rights of access of auditors to information plus, importantly, the requirement to ensure data is held securely and for no longer than required.

4. National publications and other updates

Local Audit and Accountability Bill May 2013

The effect of the Local Audit and Accountability Bill is to abolish the Audit Commission and to establish new arrangements for the audit and accountability of local public bodies in England. This includes certain health service bodies that were previously audited by auditors appointed by the Audit Commission. In addition to these health service bodies, the Bill makes provision for some consequential changes to the audit arrangements for NHS Foundation Trusts.

The bill also confirms proposal for Local Authorities to appoint their own external auditor in future on the recommendation of an independent appointment panel, but no date as yet has been specified for when this is likely to come into effect and further guidance is likely to support its implementation.

The Bill also amends the legislative framework for council tax referendums to provide that increases set by levying bodies are taken into account when local authorities determine whether they have set an excessive amount of council tax each year. It also provides for measures which can ensure local authority compliance with the Code of Recommended Practice on Local Authority Publicity.

A summary of the main provisions can be found at:

<http://www.publications.parliament.uk/pa/bills/lbill/2013-2014/0004/en/2014004en.htm>

Local Government Application Note - Public Sector Internal Audit Standards, CIPFA April 2013

On 1 April 2013 a common set of standards came into effect for Internal Audit across the UK public sector. The Public Sector Internal Audit Standards (PSIAS) apply the mandatory elements of the Institute of Internal Auditors (IIA) International Standards. Adoption of a consistent framework is designed to bring benefits for partnership working and working across the different parts of the public sector. The standards are also designed to drive improvement, leading to better public financial management. The new standards replace the existing ones in local government, central government and the NHS.

The new standards include a requirement for an independent external assessment of Internal Audit once every five years. The external assessment requirement may be satisfied by either arranging for a 'full' external assessment or by undertaking a self-assessment with 'independent validation'. The standards require the Chief Audit Executive (Head of IA) to determine the form of external assessments following consultation with senior management and the board (Audit Committee) and consideration of the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As external auditors of the Council, this is something we consider we would be able to carry out efficiently and effectively.

A Practical Guide for Local Authorities on Income Generation (2013 Edition), CIPFA

CIPFA have published an update of their guide on income generation, which is aimed at helping local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at January 2013, reflecting recent legislation and regulations.

National Fraud Initiative, *Audit Commission March 2013*

The Audit Commission issued a press briefing in March 2013 on its National Fraud Initiative (NFI). This data matching exercise is mandatory for all local government and health bodies and is undertaken every two years, with the Audit Commission reporting the results of these matches at the end of each cycle.

The outcomes, in England, from the most recent exercise include the prevention and detection of £103 million pension overpayments, £79 million council tax single person discounts incorrectly awarded and £42 million housing benefit overpayments. Others include:

- 164 employees identified as having no right to work in the UK;
- 321 false applications removed from housing waiting lists;
- 1,031 prosecutions, 921 of them for housing benefit fraud; and
- 32,633 blue badges and 52,635 concessionary travel passes cancelled.

The next NFI report is due in June 2014.

By way of background, the Audit Commission's 17-year-old initiative compares data held by 1,300 public sector and 77 private sector organisations. These include sister audit bodies in Scotland, Wales and Northern Ireland, government departments and other national agencies. It flags up inconsistencies in data that potentially indicate a fraud is taking place, and signals the need for a closer investigation.

The initiative helps detect one-off individual frauds or error, as well as serious wide-scale organised crime. It helps find patterns in fraud activity that might otherwise be missed at a local level, for example if activities are repeated over a large geographical area or masked by false identities. It helps provide a national picture of fraud and highlights some emerging fraud risks.

5. Contact details

Please let us know if you would like further information on any items in this report.

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