

Durham County Council

Audit Progress report

July 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 is now being made on the audit for 2012/13. We have now started on the detailed audit of the financial statements authorised for issue by the Chief Finance Officer on the 28th June 2013. This work will be completed between July-September and we will bring our Audit Completion Report to the September meeting of the Audit Committee.

Other work on-going includes:

- regular liaison meetings with senior finance staff to discuss queries arising from the audit of the financial statements;
- submission of 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';
- completion of other returns as required by the Audit Commission; and
- finalisation of our work feeding into the VfM conclusion work (including progress in achieving savings planned).

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).

Further to the two issues raised in our last report we note here one additional issue:

- ICT business continuity arrangements: we have raised in previous years the lack of business continuity arrangements in place should anything happen to ICT at the Tanfield site. As audit committee members are aware, this has remained a key weakness for 2012/13. However, we are pleased to note that a backup site has been approved which will be in partnership with Sunderland City Council and should be live by September 2013.

3. National publications and other updates

The Future of Public Audit, Department for Communities and Local Government, *May 2013*

The Local Audit and Accountability Bill has begun its passage through Parliament. The Bill confirms the abolition of the Audit Commission and sets out how the new arrangements will operate after abolition. In time, local public bodies (including CCGs) will appoint their own external auditors, although the exact timetable for this remains unclear.

<http://services.parliament.uk/bills/2013-14/localauditandaccountability/documents.html>

Annual Fraud Indicator 2013, National Fraud Authority, *June 2013*

The National Fraud Authority (NFA) works with the counter-fraud community to make fraud more difficult to commit in and against the UK.

The NFA aims to highlight potential fraud losses, through the Annual Fraud Indicator (AFI), with a view to encourage the building of more resilience amongst business, charities, the public sector and by individuals. The AFI 2013 is a compendium of fraud loss indicators drawn together to illustrate tentatively the possible scale, prevalence and cost of fraud. The report also contains some useful case studies.

<https://www.gov.uk/government/publications/annual-fraud-indicator--2>

4. Audit Quality

The Financial Reporting Council (FRC) published in June its 2012/13 annual report on the outcome of its audit quality inspections ('Audit Quality Inspections Annual Report'). The report includes an overall assessment of audit quality together with a number of key messages for audit committees and audit firms. In summary:

- there has been an improvement in the overall standard of audit work;
- the improvement is not even across firms and types of entities and;
- firms need to maintain their focus on professional scepticism and the effectiveness of their independence and ethical policies and procedures.

For 2012/13, Mazars LLP was not subject to the FRC's inspections having been reviewed in 2011/12. The report can be found at <http://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2012.aspx>

We have highlighted this report separately, as consideration of the quality of the work of external audit is part of the terms of reference of this Committee. Key recommendations and issues from the FRC's report are set out in the table below, along with our response to the recommendations and issues raised.

FRC issue/recommendation	Audit and Governance Committee consideration	Mazars approach
<p>Focus on audit quality</p> <p>Firms should have appropriate controls and procedures to ensure that audit efficiencies are not achieved at the expense of audit quality.</p>	<p>Where significant fee reductions have been proposed or agreed, carefully consider whether the overall level of work to be performed is likely to be sufficient to identify material misstatements and ensure that audit quality is not compromised.</p>	<p>Our audit approach complies with auditing standards and delivers efficiencies through the use of experienced staff, IT audit techniques, effective communication with management and finance staff and focusing on the risks of material misstatement.</p>
<p>Professional scepticism</p> <p>Firms should ensure further improvements and greater consistency in exercising sufficient professional scepticism.</p>	<p>Support and encourage a sceptical approach in the audit of areas of key judgement and ensure that auditors have access to all relevant information.</p>	<p>We will report in our Audit Strategy Memorandum the areas of key judgements and significant risks where we have applied appropriate challenge to management.</p>
<p>Auditor independence and ethical issues</p> <p>Firms should review the</p>	<p>Seek additional independence information where appropriate and</p>	<p>All staff must annually make an independence declaration and attend training on independence</p>

FRC issue/recommendation	Audit and Governance Committee consideration	Mazars approach
adequacy of their independence and ethical procedures and the training that they provide to staff at all levels.	challenge firms to demonstrate their independence, both in substance and form.	and ethics. We share promptly with management and the Audit Committee any perceived or actual threats to our independence and put in place safeguards where appropriate. We report these formally and openly in our Audit Strategy Memorandum and Audit Completion Report.
<p>Audit quality monitoring</p> <p>Firms should reconsider the robustness of their monitoring processes and the extent to which they contribute to an improvement in overall audit quality.</p>	Ask the firm whether their audit has been reviewed by the firm's internal monitoring processes and, if so, what the main lessons learnt were; how the findings compare with the FRC's inspection findings and what actions the firm has taken to address the issues identified.	<p>2012/13 was the first year of the firm's appointment as your auditor. Mazars has a comprehensive internal quality monitoring system.</p> <p>This includes, for each Director new to the firm, a full internal quality monitoring review of at least two engagements and additional reviews of audit work as it progresses.</p> <p>We will share lessons learned with you as they arise.</p>

Audit Commission oversight of audit quality

Our regulator, the Audit Commission, also publishes quarterly and annual reports on the quality of the work it has outsourced to the firms.

<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/>

5. Contact details

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

www.mazars.co.uk

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