

Durham County Council

Audit Progress Report

February 2015

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Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Introduction

The purpose of this report is to update the Audit Committee of Durham County Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us 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.

02 2014/15 audit progress

2014/15 planning

In the coming quarter we will carry out our initial planning for the 2014/15 audit year.

We will:

- carry out our initial planning in respect of 2014/15, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- on-going liaison with your Internal Auditors to both share common knowledge and ensure no duplication;
- on-going liaison with senior officers and consideration of key agendas and papers.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the next Audit and Standards Committee.

Updated Value for Money conclusion guidance

The Audit Commission has issued updated guidance in respect of the Value for Money (VfM) conclusion.

Link to guidance: <http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/08102014-VFM-guidance-2014-15.pdf> (section 5 applying to councils).

By way of a reminder, we are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources. Our conclusion on your arrangements is based on two criteria specified by the Audit Commission:

- **securing financial resilience** – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- **challenging how you secure economy, efficiency and effectiveness** – focusing on whether you are prioritising resources within tighter budgets and the need to improve productivity and efficiency.

In addition, we have regard to:

- your system of internal control as reported in your own Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review bodies; and
- any other locally determined risk-based VfM work considered necessary.

The guidance is similar to last year, setting out guidance for each sector under the following areas:

- approach and specified reporting criteria;
- key sector issues;
- guidance on the specified reporting criteria;
- financial resilience;
- securing economy, efficiency and effectiveness;
- risks relevant to the specified reporting criteria; and
- supporting VfM tools.

The guidance also sets out what are the typical characteristics for each of the two criteria; we plan to use these as a framework to inform our work, taking into account any local risks we may identify.

Our Audit Strategy Memorandum will set out our planned approach to the VfM conclusion for 2014/15.

03 National publications and other updates

This section contains updates on the following:

1. **Oversight of audit quality, *Audit Commission, quarterly and Annual Compliance Report, December 2014***
2. **Auditing the Accounts 2013/14: Local Government bodies, *Audit Commission, December 2014***
3. **2015/16 proposed fee scales and work programme, *Audit Commission, October 2014***
4. **Protecting the Public Purse, *Audit Commission, October 2014***

1. **Auditing the Accounts 2013/14: Local Government Bodies, *Audit Commission, December 2014***

The Audit Commission recently published its annual report on the quality of local government accounts for the 2013/14 financial year. The report highlights that financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. The results for small bodies were however less satisfactory (these smaller bodies include parish councils).

The report also details any bodies where:

- the audited accounts were not published by the deadline of 30 September;
- the opinion and / or value for money conclusion was qualified; and
- there were public interest reports and statutory recommendations issued by auditors since December 2013.

The report highlights the key financial reporting challenges facing bodies for 2014/15 and beyond, in particular, the new Accounts and Audit Regulations. These are expected to come into effect from 1 April 2015 and are likely to bring forward the accounts publication date for principal bodies from 30 September to 31 July for the 2017/18 accounts onwards.

This report is for information only; there were no issues in respect of the Council highlighted in this report. In respect of the likely earlier deadlines, the Corporate Director Resources is aware of these and the arrangements that will need to be in place.

<http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/auditing-the-accounts/>

2. Oversight of audit quality, *Audit Commission, quarterly and annual compliance report, December 2014*

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

Quarterly monitoring, December 2014

<http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-Q2-2014-15-Regime-Compliance-Monitoring-Report.pdf>

There are no significant issues highlighted in respect of Mazars LLP in the quarter 2 report.

Annual regulatory and compliance quality report 2013/14

<http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf>

We have also received our annual regulatory and compliance quality report from the Audit Commission; this demonstrates our overall good performance in respect of quality and other standards as shown in the snapshot below.

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2013/14, Mazars combined audit quality and regulatory compliance rating was green.

Figure 1: 2014 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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6 The firm has performed well in its first year in the Commission's regime. All of the 2013/14 regulatory compliance indicators have been scored as green. In addition, audited bodies are satisfied with the performance of Mazars as their auditor.

(where viewed in black and white, the above table shows four firms, including Mazars rated as 'green', with GT, KPMG and PwC as 'amber').

On-going improvement and efficiency

Mazars remains committed to improving audit quality and efficiency and is carrying out a review of its processes and methodologies in light of the firm-specific Annual Report as well as feedback to other firms. The Commission has highlighted some areas for firm-wide improvement, including:

- a need to review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations;
- a need to set, and ensure consistent application of, a public sector specific engagement quality control review (EQCR) policy; and
- a need to obtain sufficient audit evidence in relation to fixed asset valuations.

The report also highlighted some key areas for improvement identified from file reviews:

- ensuring clearer documentation on file over the rationale for sample testing;
- ensuring sufficient audit procedures are performed in the testing of operating income and expenditure;
- ensuring there is clearer documentation on file to support risks identified and related audit work;
- ensuring that external confirmations are obtained directly from external third parties; and
- ensuring there is sufficient documentation on file of related party transactions.

Consideration of these reports will contribute to the Committee’s fulfilment of its terms of reference in respect of considering the quality of external audit.

3. 2015/16 proposed fee scales and work programme, Audit Commission, October 2014

The Audit Commission is consulting on its 2015/16 proposed work programme and scales of fees. The Department for Communities and Local Government (DCLG) has asked the Audit Commission to set fees for 2015/16 before the Commission’s closure on 31 March 2015.

The Commission is proposing to reduce scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15. It does not plan to make changes to the overall work programme. The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under older contracts with audit firms, and is in addition to the 40 per cent cut in fees made by the Commission in 2012.

The consultation document also contains a useful summary of the changes that will take place following the closure of the Commission in March 2015, including commentary in respect of the possible extension of the current audit contracts, namely: *“the new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish in 2017, or in 2020 if extended. The Commission’s other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would ‘lock in’ reduced audit fees, delivering further savings for audited bodies”*.

The Commission has also highlighted in a press release that it will be returning a further £6 million to its audited bodies in rebates. **The consultation ended on 9 January 2015. The proposed scale fee for Durham County Council is £250,687, i.e., a 25 per cent reduction on the 2014/15 scale fee of £334,250.**

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/>

4. Protecting the Public Purse, Audit Commission, October 2014

The Audit Commission published its annual report on fraud in local government last month *Protecting the Public Purse (PPP)*.

PPP 2014 is for those responsible for governance in local government. PPP 2014 includes:

- the scale and value of fraud detected by local government bodies in 2013/14;
- longer term trends in fraud detection, including tenancy fraud;
- trends and threats in other significant fraud types; and
- national developments impacting on local government counter-fraud.

In addition, PPP 2014:

- gives details of detected frauds and losses by region;

- updates the checklist for those responsible for governance;
- includes a number of case studies; and
- highlights the new CIPFA newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The Code will be supported by a self-assessment framework. CIPFA also published good practice guidance in December 2014.

This report is highlighted for information only. In respect of the new CIPFA Fraud Code, the Chief Internal Auditor is aware of the new publication and will take it into account in considering fraud coverage at the Council.

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>

04 Contact details

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

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