

Durham County Council

External Audit Progress Report

29 June 2015

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Purpose of this paper

This paper updates the Audit Committee on progress in meeting my responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact Cameron Waddell or Catherine Banks using the contact details at the end of this update.

Finally, please note the website address www.mazars.co.uk

which sets out the range of work Mazars carries out across the UK public sector. It also details the services provided within the UK and abroad.

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Summary of audit progress

In the last quarter we have carried out the following work for the 2014/15 audit year.

We have:

- carried out our planning and risk assessment, refreshing our understanding of the Council's business and what we consider are the significant risks of material misstatement in respect of the financial statements and the Value for Money Conclusion to inform our testing strategy;
- documented a walkthrough of the key financial systems;
- held on-going liaison meetings with senior officers.

We presented our Audit Strategy Memorandum , which sets out our planned work and assessments in more detail, to the previous meeting of the Audit Committee.

We have completed a similar process for the audit of Durham County Pension Fund and we presented our Audit Strategy Memorandum at the previous meeting and at the last Pension Fund Committee meeting.

We start the next phase of our work on receipt of the financial statements at the end of June.

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Certification of grants 2014/15

As your appointed auditor, Mazars LLP acts as an agent of Public Sector Audit Appointments (PSAA) in carrying out certification work on the housing benefit subsidy claim. In previous years the Audit Commission made arrangements with the Department for Work and Pensions (DWP) for claim certification but this function has transferred to PSAA following the closure of the Audit Commission on 31 March 2015.

Prior to closure the Audit Commission made arrangements with DWP for appointed auditors to certify the housing benefit subsidy claims for 2014/15. In certifying these claims, all auditors are required to comply with a specified approach set out in a certification instruction.

We certify the claim by issuing a certificate which states whether the claim has been certified:

- without qualification;
- without qualification following an agreed amendment made by the Council; or
- with a qualification letter.

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

The proposed fee for the certification of housing benefit subsidy claim for 2014/15 is £32,210 . The proposed fee reflects the scale fee set by the Audit Commission. In addition to certification work carried out as agents of PSAA, we may also be engaged directly by the Council to carry out other certification work. Where this is the case we will agree separate engagement terms for each claim or return.

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Audit fees 2015/16

Durham County Council

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

The Commission has reduced scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15 with no changes to the overall work programme. The fee reduction will apply to all principal bodies, with the exception of 15 local government bodies whose scale audit fees are already below £20,000, and of the fees for pension fund audits at local authorities.

The Commission published the final work programme and scales of fees for 2015/16 on 23 March 2015.

The table below outlines our proposed fees for completion of our Code audit work.

Area of work	Proposed fee 2015/16	Provisional fee 2014/15
Code audit	£250,688 plus VAT	£334,250 plus VAT
Certification of claims	£20,062 plus VAT	£32,210 plus VAT

At this stage we are not proposing to carry out any additional services for the Council.

The Audit Commission's scale fee assumes that you are able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Outline of work programme

For 2015/16 we are required to meet the requirements of the National Audit Office's Code of Audit Practice and the Local Audit and Accountability Act 2014. The programme of work we are required to carry out in respect of the new Code remains largely unchanged. Our proposed fee for Code audit work includes:

- the audit of your financial statements;
- our work to conclude on your arrangements to secure value for money in your use of resources; and
- a programme of work specified by the National Audit Office in respect of your Whole of Government Accounts submission.

In addition, we will address any legal challenge work prompted by local electors at the rate prescribed by the Audit Commission.

Durham County Pension Fund

The Commission published the final work programme and scales of fees for 2015/16 on 23 March 2015. The Commission concluded that fees for pension fund audits at local authorities will remain unchanged.

We can confirm that fees are in line with the scale fee set by the Audit Commission. The proposed fee for the Code audit for 2015/16 is £25,918 plus VAT which is unchanged from 2014/15.

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Emerging issues and developments

The following pages outline for your attention some significant emerging issues and developments in respect of:

- Moving ahead with integration (CIPFA Briefing); and
- Accounting for transport infrastructure.

CIPFA briefing paper: Moving ahead with integration, *May 2015*

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as a key initiative. However, many local health and social care providers do not yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund will be dissipated. If the best is to be made of such integration, CIPFA thinks that three conditions will need to be met as set out below.

First, it will need to recognise that combining two financially challenged systems will not in itself increase resources available. All the indications are that additional funding or changes to the regime for charging will also be needed

Second, it is critical that the new government moves quickly to address the financial and policy framework for integration in 2016/17 and beyond.

Third, central and local health and social care leaders must take the right local actions to facilitate successful integration, concentrating on frontline practice.

The Council is well aware of the integration agenda. We will discuss with senior officers over the coming months.

<http://www.cipfa.org/cipfa-thinks/briefings>

Accounting for transport infrastructure – The long and winding road, Room 151 (Mazars briefing), April 2015

CIPFA published the original Code of Practice on Transport Infrastructure Assets in 2010, setting out significant changes in the measurement of transport infrastructure assets captured by the code. CIPFA has now confirmed that local authorities are required to implement the requirements for the first time in 2016/17.

The sheer size and complexity of the network of transport assets managed by local authorities is leading many in the sector to begin to worry about how prepared authorities are to meet the challenges that implementing the code brings.

One of the primary reasons for the change is the continuing qualification of the Whole of Government Accounts on the grounds of inconsistency in the measurement basis for transport infrastructure assets between central and local government. HM Treasury estimates that the impact of this inconsistency is a potential £232bn understatement of asset values, which gives a good idea of the scale of the restatements required by each local authority adopting the code.

Even a fairly small unitary authority is likely to have a few billion pounds worth of assets on their balance sheet with larger county areas potentially exceeding £10bn.

We have already started discussing this issue with senior officers who are aware of the task ahead.

<http://www.room151.co.uk/technical/accounting-for-transport-infrastructure-the-long-and-winding-road/>

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