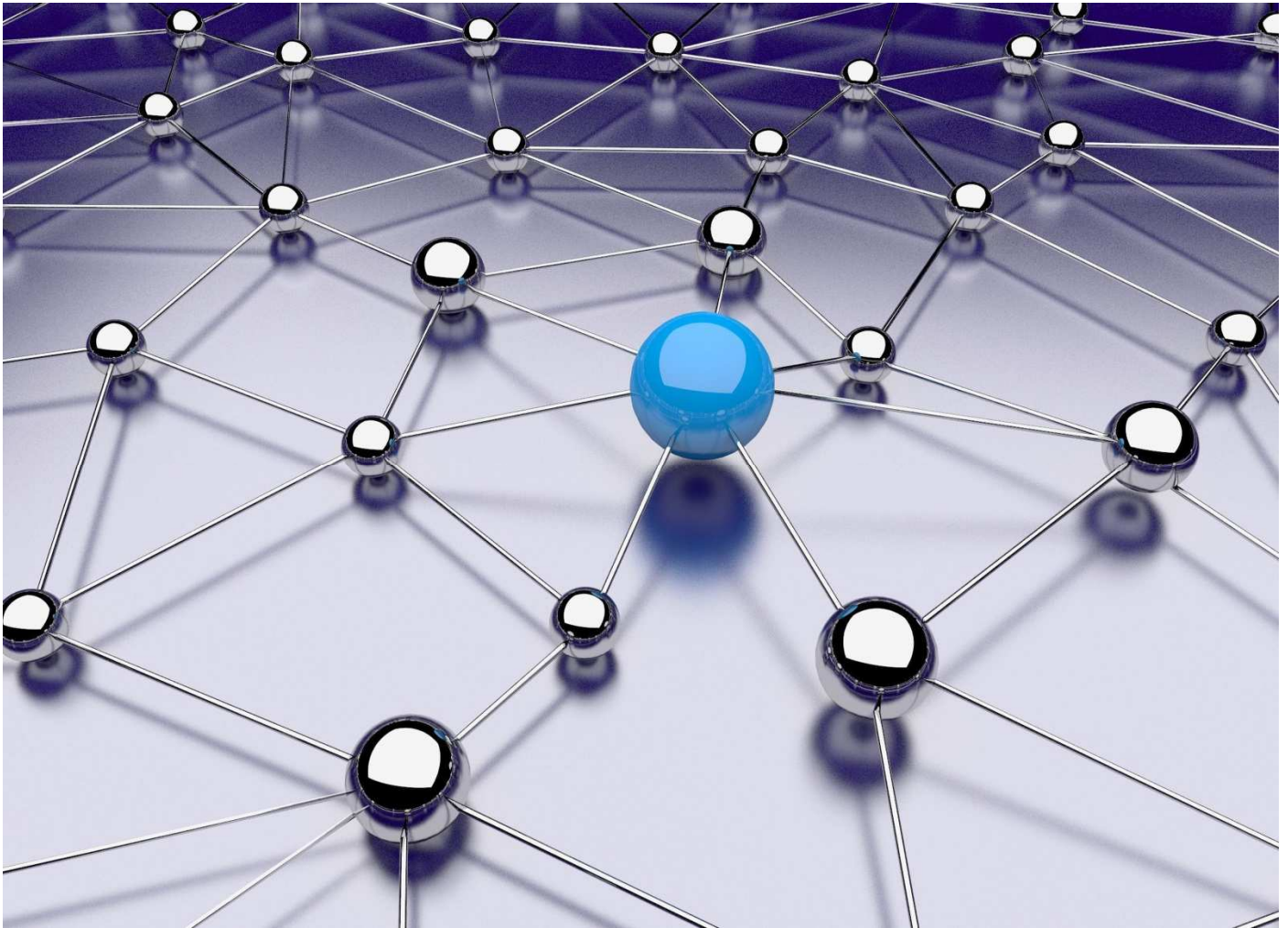


Durham County Council Audit Progress Report

February 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Durham County Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

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 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 Summary of audit progress

Completion of 2014/15 audit

Certification of claims and returns

Our 2014/15 Certification report has been included on the agenda for this Audit Committee.

2015/2016 planning

Our planning work for the 2015/2016 audit year has commenced and includes:

- our initial planning in respect of 2015/2016, 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;
- walkthroughs the key financial systems;
- meeting with your internal auditors to share common knowledge and ensure no duplication;
- on-going meetings with senior officers and consideration of key agendas and papers; and
- planning our interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit Committee meeting on 17 May 2016.

Audit team changes

James Collins has replaced Catherine Banks as Audit Manager. James is replaced by Sharon Liddle as Team Leader. James and Sharon have significant experience of Durham County Council and will ensure continuity of our arrangements. Cameron Waddell remains as the Engagement Lead for the audit.

03 Updated Value for Money conclusion guidance

Summary

The National Audit Office has published updated guidance in respect of the Value for Money (VfM) conclusion. The guidance sets out the revised criterion applying to 2015/2016 audits and consists of an overarching document, along with a local authority-specific paper which provides details of supporting background information on key issues facing local authorities.

Overarching guidance: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf>

Local-authority specific background: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Supporting-information-AGN-03-Local-authorities-Nov-2015.pdf>

Revised criteria

In previous years, auditors were required to reach their statutory conclusion on arrangements to secure VfM in respect of two main criteria; these have now been replaced by one overall criterion, supported by three sub-criteria, as set out in the two tables below

Previous year criteria

Previous year criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

New criterion from 2015/2016

New overall criterion	Sub-criteria
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.	<ul style="list-style-type: none">• Informed decision-making.• Sustainable resource deployment.• Working with partners and other third parties.

Sub-criteria – further detail

In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements.

The recently issued guidance draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance. Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Managing and utilising assets effectively to support the delivery of strategic priorities. Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities. Commissioning services effectively to support the delivery of strategic priorities. Procuring supplies and services effectively to support the delivery of strategic priorities.

Next steps

As in previous years, the VfM conclusion requires auditors to reach a conclusion on whether arrangements are in place for securing VfM as opposed to an absolute determination on whether VfM is being achieved. The guidance also highlights that auditors should note that while all bodies will work with partners and other third parties (including contractors), the significance of these arrangements, and consequently the extent to which they will impact on the auditor's risk assessment, will vary.

We will carry out an initial risk assessment in respect of the VfM conclusion for 2015/2016, drawing on the newly issued guidance. This will inform our assessment of any significant risks and the extent of work required and we will report this in our Audit Strategy Memorandum for the 2015/2016 audit.

04 National publications and other updates

This section contains updates on the following:

1. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
2. **Whistleblowing e-learning for the public sector**
3. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**
4. **A short guide to the Department for Communities and Local Government, National Audit Office, August 2015**
5. **A short guide to the National Audit Office's work on local authorities, National Audit Office, August 2015**
6. **Extension of existing external audit contracts by one year**

1. **Regulatory Compliance and Quality Report, Quarter 1 2015-16**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within the regime are delivering high-quality audits. In its Annual Regulatory Compliance and Quality Report PSAA reported that Mazars met all standards for overall audit quality and regulatory compliance. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** (the highest available).

The quarter 1 report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators and is available on the PSAA website <http://www.psaa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

2. **Whistleblowing e-learning for the public sector**

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify 'grey areas' around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing;
- the arrangements you have in place;
- how best to blow the whistle/raise concerns;
- where staff can blow the whistle/raise concerns;

- what staff can expect and how their organisation will support them;
- rights and options for support; and
- why whistleblowing is so important.

3. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;
- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

4. A short guide to the Department for Communities and Local Government, National Audit Office

The National Audit Office (NAO) is publishing a suite of short guides; one for each government department, to assist House of Commons Select Committees. This guide is designed to provide a quick and accessible overview of the Department and focuses on what the Department does, how much it costs and recent and planned changes.

<https://www.nao.org.uk/report/a-short-guide-to-the-department-for-communities-and-local-government/>

5. A short guide to the National Audit Office's work on local authorities, National Audit Office

The NAO has also published a short guide to its work on local authorities; this guide is designed to provide a quick and accessible overview of how local government is funded, the pressures local authorities face, staffing, and major recent and future developments.

<https://www.nao.org.uk/report/a-short-guide-to-the-naos-work-on-local-authorities/>

6. Extension of existing external audit contracts by one year

The current local government audit contracts with audit firms end with completion of the audit of the accounts for 2016/17, with an option to extend contracts after this date. The Government has taken a decision to extend local authority contracts by one year to cover the 2017/18 audit, the first year in which the accounts and audit deadline is to be brought forward significantly. From the 2018/19 audit, local authorities, including Durham County Council, will be required to make their own auditor appointments. The auditor for 2018/19 must be appointed by 31 December 2017. CIPFA is preparing guidance for local authorities on appointing auditors.

05 Contact details

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

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