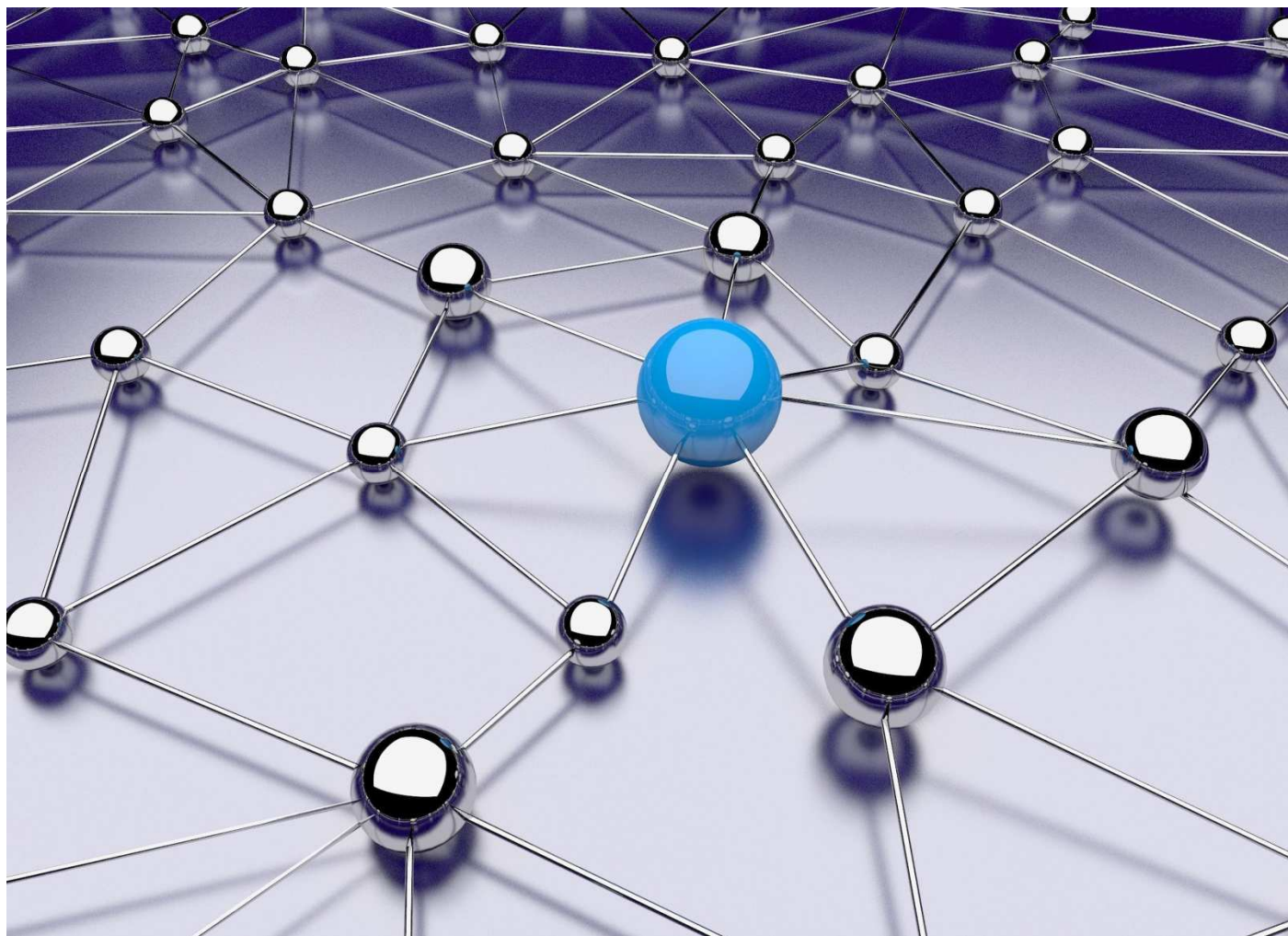


Durham County Council

Audit Progress Report

May 2016



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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Members or employees of Durham County Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

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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.

02 2015/16 audit

2015/16 planning

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

Accounts workshops for officers

In January 2016, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2015/16 statement of accounts. The workshop was well attended and well received by our clients. Some of your officers attended the workshop.

This year we also provided an additional workshop on infrastructure assets, an area where the accounting requirements change significantly next year. Highways engineers and accountants were brought together for this workshop, and the officers who attended, found the workshop helpful as part of their preparations for these changes.

Changes impacting on the public inspection of the accounts

The Accounts and Audit Regulations (2015) have made changes to, amongst other things:

- the roles and responsibilities associated with informing electors of their rights; and
- the publication of draft and audited statements of account and information that accompanies those statements.

It is now the Responsible Financial Officer's responsibility to publish a statement that includes details of the period for the exercise of public rights. It is also now the Responsible Financial Officer's responsibility to inform the auditor of the date on which that period commences; previously the auditor was responsible for 'calling the audit' and appointing a specific date on which electors could ask questions relating to the audit.

The period for the exercise of public rights must be a single period of 30 working days. Electors can only exercise their rights of inspection and objection, as set out in the Local Audit and Accountability Act 2014, during this period. The period must include the first 10 working days of July for this year's audit and, as a result, the earliest date that the audit of a local authority can be completed for 2015/16 is 15th July 2016.

The Regulations also set out the revised timetable for the preparation and audit of the Council's financial statements from 2017/18 that we have mentioned in previous audit progress reports / audit committee meetings. We continue to work closely with the Council's finance team to ensure that we both meet the revised timetable.

Further details on the requirements are set out in the Appendix to this report.

03 National publications and other updates

This section contains updates on the following:

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**
2. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**
3. **Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015**
4. **Cipfa: Guide to auditor panels, December 2015**
5. **Mazars: Public services blog 'Let's talk public services'**

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**

This guidance, which has been published by the Cabinet office, is to help directors of companies owned by the public sector, in full or in part, to understand their duties and responsibilities, including identifying and managing conflicts of interest. As local government and related bodies increasingly explore alternative models of service delivery, including establishing local authority trading companies, this guidance is of relevance.

<https://www.gov.uk/government/publications/guidance-for-directors-of-companies-fully-or-partly-owned-by-the-public-sector>

An additional guidance paper referred to in the Cabinet Office report is a National Audit Office paper produced in January 2015 on Conflicts of Interest. This is also of relevance to authorities that are operating in an increasingly complex environment of related entities.

<https://www.nao.org.uk/report/conflicts-interest-2/>

2. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018 – <http://www.psa.co.uk/about-us/what-we-do/corporate-plan-2015-2018/>

The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014 (the Act).

PSAA's work programme involves two parallel strands: ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and, providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

The plan was informed by the fact that the timetable for the expiry of the existing audit contracts is now clear. For NHS bodies and smaller local authorities (mainly parishes and internal drainage boards) existing arrangements will cover the audits up to and including 2016/17. For these bodies the new regime will therefore apply to the audits of the financial year 2017/18 and onwards. For principal local authorities and criminal justice bodies the existing arrangements are expected to run for a further year covering the audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

The plan details PSAA's responsibilities to redistribute any surplus monies, including money received on the closure of the Audit Commission, to audited bodies. PSAA's current plan is to implement a phased redistribution of surplus fees to all audited bodies as follows:

- NHS bodies: the amount of redistribution, based on current information, is likely to be in the order of 10 per cent of 2016/17 scale audit fees, with expected payment in 2017 (total redistribution: circa £1.5 million which is calculated after allowing for closedown and redundancy costs);
- local government bodies: the amount of redistribution, based on current information, is likely to be in the order of 15 per cent of 2017/18 scale audit fees, with expected payment in 2018 (total redistribution: circa £7.5 million) and in 2019 of any remaining surplus once the final expected costs of ending the audit contracts are established.

The DWP has confirmed that it requires PSAA to make arrangements for auditor certification of housing benefit subsidy claims from local authorities for 2016/17.

The Local Government Association (LGA) and the Improvement and Development Agency (IDeA) wish to support local authorities with their responsibilities under the Act by securing the establishment of a sector led body to appoint auditors in the new regime. PSAA has agreed to work with LGA and IDeA to explore the feasibility and viability of PSAA taking on this role in the future. Further information will be provided on PSAA's website as this work progresses.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements - <http://www.psa.co.uk/supporting-the-transition/>

3. Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015

This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies for 2014/2015. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/2015 remained broadly consistent with the previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.

Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/2015 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies (at the time of this

report being written). The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.

For small bodies, auditors were able to issue their opinion on the annual return by 30 September 2015 at 99 per cent of parish councils and internal drainage boards. This is consistent with the previous year.

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

4. Cipfa: Guide to auditor panels, December 2015

This publication is aimed at those within local authorities who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

5. Mazars: Public services blog 'Let's talk public services'

Mazars has launched a blog 'Let's talk public services' where Mazars' team of auditors and advisors working with UK public service organisations can provide a place in which public service practitioners can exchange experience and ideas relevant to their jobs. The blog can be found here:

<http://blogs.mazars.com/lets-talk-public-services>.

04 Contact details

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

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Appendix: Changes arising from the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015

Changes to legislation which set the framework for the work auditors undertake on local authority statement of accounts will lead to changes in the audit process and timetable.

The relevant legislation can be found here:

The Local Audit and Accountability Act 2014: <http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted>

Accounts and Audit Regulations 2015: http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Arrangements for the publication and audit of the statement of accounts

The changes to legislation do not change the publication and audit process to a great degree, however there are differences that auditors, and audited bodies need to be aware of. These, and the timings involved, are set out in the table below:

| | Action | Regulation | Timing (15/16 and 16/17) | Timing (17/18 onwards) |
|---|---|------------|--|--|
| 1 | RFO signs and dates the statements and confirms that they present a true and fair view | 9(1)(a) | Prior to publication of draft statements (see below) | Prior to publication of draft statements (see below) |
| 2 | RFO must publish (including publication on the authority's website): <ul style="list-style-type: none"> • The statement of accounts and an accompanying declaration that they are unaudited and subject to change • The AGS (whether approved or not) • The Narrative Statement • A statement that sets out <ul style="list-style-type: none"> ○ The period for the exercise of public rights ○ Details of the manner in which notice of the intention to documents should be given ○ The name and address of the auditor | 15(2) | By 30th June* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of July as per 15(1)(a) as adjusted by 21(b). | By 31st May* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of June as per 15(1)(a). |

| | | | | |
|---|--|---------------------------|--|--|
| | o The provisions of section 26 and 27 of the LAAA 2014 | | | |
| 3 | RFO must commence the period for the exercise of public rights and notify the auditor of the date on which the period commences. The period must be a single period of 30 working days as per regulation 14(1) and must include the first 10 working days of July (for 2015/16 and 2016/17) as explained above. | 9(1)(b) And 9(1)(c) | The day following the date on which the RFO has met the responsibilities in (2) above. | The day following the date on which the RFO has met the responsibilities in (2) above. |
| 4 | Following conclusion of the period for exercise of public rights the accounts must be: 1. considered by members (committee or meeting as a whole) 2. re-confirmed by the RFO on behalf of the authority that the statement of accounts presents a true and fair view before the accounts are approved 3. approved by the same committee or meeting 4. signed – this must be by the person who presides over the meeting where the accounts were considered and approved. | 9(2) and (3) | By 30th September | By 31st July |
| 5 | The approved and audited accounts, approved AGS, and Narrative Statement, must be published (including on the authority's website) | 10(1) | By 30th September | By 31st July |
| 6 | An authority must publish (including on the authority's website) that the audit has been concluded and that the statement of accounts has been published. | 16 (1)and (2) | By 30th September | By 31st July |

* The exact date will depend on when the first working day falls in July (for 2015/16 and 2016/17) and in June (for 2017/18 onwards).

Further information on public rights under the LA&A Act

Period for exercise of rights

The period for questions to the auditor is now restricted to the 30 days of the inspection period, there is no appointed date for questions to the auditor. As noted above, the period must include the first 10 working days of July in for the audit years 2015/16 and 2016/17 under the transitory arrangements.

Calling the audit is no longer the responsibility of the auditor; it has been superseded by the notification of the period for public rights by the RFO (point 3 in the table above).

There is no longer a set date for questions to the auditor, but a local elector must be given the opportunity to question the auditor about the accounting records if they request it (section 26(2) of the LA&A Act). Rights of objection also remain (section 27 of the LA&A Act). All objections to the auditor must be made in writing and be copied to the authority. Regulation 14(1) makes it clear that the rights conveyed by sections 26 and 27 of the Act may only be exercised within the single 30 day period.