

Audit Progress Report

Durham County Council



February 2017



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Audit progress

Certification of claims and returns

Work on the 2015/16 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2016.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return.

Included on the agenda for this meeting is a letter which gives further details of the findings from our housing benefit subsidy claim certification work.

2016/17 audit planning

Planning of the 2016/17 audit will be the focus for the audit team in the first quarter of 2017. We have commenced our walkthrough testing of the Council's key financial systems. This work updates our understanding of systems obtained in previous years.

We will also look to complete early substantive testing of income, expenditure and journals. Where possible we will commence our work on property, plant and equipment.

North East Governance Forum

A Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees and officers, was held on the 8 February 2017 at Durham County Cricket Club. The agenda for this meeting covered the following topics:

- Commercialisation, local authority trading companies and alternative models of service delivery.
- Developing an Assurance Framework

Final accounts workshop

As in previous years, we ran an annual final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. This workshop was held in February 2017; officers from the Council attended this event, which is free of charge.

Request for information

International Auditing Standards require auditors to enquire about arrangements the entity has put in place. We list a number of questions below and would be grateful if the Committee could provide a response for the next Audit Committee.

The auditor's responsibility to consider fraud in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:

1) How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how the Committee oversees managements:

- Assessment of the risk that the financial statements may be materially misstated due to fraud or error;
- Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Council's code of conduct; and
- Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error

2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2015 – 31 March 2016?

3) Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?

4) Is the Audit Committee aware of any significant breaches of internal control during 2015/16?

5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:

- Where are the risk areas?
- What other controls are in place to prevent, deter or detect fraud?

6) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?

7) How does the Audit Committee mitigate the fraud risks associated with related party relationships and transactions?

8) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:

- Are there particular balances where fraud is more likely to occur?
- Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
- Are there any external fraud risk factors which create a high risk of fraud?

9) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?

- 10) Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?

Consideration of laws and regulations in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- 1) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:
- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
 - What arrangements are in place for the Committee to oversee this process?
 - Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?

Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- 1) Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements?

Consideration of the going concern assumption in an audit of financial statements

We are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA570. We are therefore making the following request from the Audit Committee:

- 1) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

Consideration of related parties

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Audit Committee:

- 1) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 2) Confirmation that the Audit Committee have:
- disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and

- appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework

National publications and other updates

National publications and other updates

1	Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016
2	NAO Report – Housing in England: overview, January 2017

1. Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016

Auditors of 96% of councils were able to issue the opinion on the accounts by the statutory deadline of 30 September 2016.

PSAA's conclusions in relation to local authorities included that "The timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations."

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

2. National Audit Office (NAO) Report – Housing in England: overview

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element of this is housing benefit. In 2015-16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need (particularly in London) and notes the DCLG is reliant on the market to achieve its housing objectives. The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11.

The full report is available on the NAO website <https://www.nao.org.uk/report/housing-in-england-overview/>

Contact details

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

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