

Audit Committee

28 June 2017



External Audit Progress Report – June 2017

Report of the External Auditor

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's progress report on the external audit of Durham County Council to date.

Background

- 2 The report sets out an update of the work completed by Mazars (external auditor) in respect of the following:
 - (a) Summary of Audit Progress;
 - (b) Technical Update;
 - (c) National Reports and Updates.

Summary of Audit Progress

- 3 Early audit testing was completed in a number of areas:
 - (a) Income
 - (b) Non-payroll expenditure
 - (c) Journals
 - (d) Pension Fund investment purchases and sales
- 4 The draft financial statements were received on 31 May 2017 and testing has commenced with a view to reporting to the July 2017 Audit Committee.
- 5 It is also the intention to deliver the Value for Money conclusion at the same Audit Committee meeting in July 2017.
- 6 Work on the Housing Benefit Subsidy certification has started with a view to having this work completed and presented to the Audit Committee in late 2017.

- 7 A letter has been sent to the Council's Chief Executive to outline the proposed fees for work under the National Audit Office (NAO) Code of Practice and to certify the Housing Benefit Subsidy return. These fees will be delivered in 2017/18 in line with the scale of fees set by the Public Sector Audit Appointments Ltd (PSAA).

Technical Update

- 8 The previously reported CIPFA/LASAAC Code Board's proposed change to the measurement basis of Highways Assets has not proceeded. Therefore the Code of Practice on Local Authority Accounting ("the Code") has been updated with the removal of the change in measurement of Highways Assets being the only substantive change.
- 9 The 2017/18 Housing Benefit Subsidy return will be the last return completed under the external auditor's contract with the PSAA. From 2018/19 this work no longer forms part of the appointed auditor's responsibilities. The Council will need to make arrangements to appoint a 'reporting accountant' to provide assurance over the accuracy of the return to the Department for Work and Pensions (DWP).

National Reports and Updates

- 10 This section provides an update on other areas that members of the Committee may find useful.

Recommendation and Reasons

- 11 The Committee is requested to note the contents of the external auditor's progress report.

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Appendix 1: Implications

Finance – No direct implications as a result of this report.

Staffing – None.

Risk – None.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation– None.

Crime and Disorder– None.

Human Rights– None.

Consultation– None.

Procurement– None.

Disability Issues– None.

Legal Implications– None.

Audit Progress Report

Durham County Council including Durham County Council Pension Fund



June 2017



Contents

Audit progress.....	3
Technical update.....	4
National reports and other updates	5
Contact details	6

Audit progress

Audit of the financial statements

We presented our Audit Strategy Memorandum for both the Council and the Pension Fund to the February 2017 Audit Committee meeting. We have identified no matters which require us to alter our planned approach to the 2016/17 audit.

In preparation for the earlier close down we have continued to hold liaison meetings with officers. In March 2017 we completed early audit testing in a number of areas, including:

- Income
- Non- payroll expenditure
- Journals
- Pension Fund investment purchases and sales

In line with the Council's timetable we received the draft financial statements on 31 May 2017. We have commenced our detailed testing on the financial statements. Our testing is initially focused on those areas considered to be higher risk of misstatement.

We will present our Audit Completion Reports to the July 2017 Audit Committee meeting.

Value for Money conclusion

As presented in our Audit Strategy Memorandum we have not identified a significant risk for the year ended 31 March 2017. Areas of additional work which we need to complete before concluding on the Council's arrangements is ongoing.

We will present our Audit Completion Report, which outlines the results of our Value for Money conclusion, at the July Committee meeting.

Housing Benefit Subsidy certification

We have held initial meetings with officers to discuss the nature and timing of the work required for the certification of the Council's Housing Benefit Subsidy return.

We will report the findings from this work, and any other assurance work that we undertake for the year, as part of our Certification and Assurance Report. We anticipate presenting this to the Committee in late 2017.

Further information on the future arrangements for the delivery of this work is provided later in this report.

Fee Letter for 2017/18

We are required to write to the Council's Chief Executive, to outline our proposed fees for our work under the NAO Code of Audit Practice and to certify the Housing Benefit Subsidy return. We wrote to the Chief Executive confirming that we propose to charge fees for work to be delivered in 2017/18, in line with the scale fees set by Public Sector Audit Appointments Ltd.

Area	Proposed fee (2017/18)
Audit of Council Accounts and VFM conclusion	£250,688 (plus VAT)
Housing Benefit certification work	To be confirmed
Audit of Pension Fund Accounts	£25,918 (plus VAT)

Technical update

Accounting for the Highways Network Asset – Update

As previously reported CIPFA / LASAAC Code Board have decided not to proceed with the intended change in measurement basis for the Highways Network Asset (e.g. carriageways, footways, traffic management systems, highways land, and street furniture).

The change, that officers and auditors have been working hard to implement for 2016/17, would have seen these assets measured on the basis of their depreciated replacement cost as opposed to their historic cost. This significant change would have led to revaluation gains running into billions of pounds.

We will continue to keep the situation under review and will contribute to national discussions on any future decisions to implement the planned changes. We will also ensure that officers are kept aware of developments in this area.

Code of Practice on Local Authority Accounting ('the Code')

As a result of the decision not to implement the change to Highways Network Asset, the CIPFA / LASAAC Code Board issued an update to the Code. The only substantive change introduced by the update was to remove provisions relating to the change in measurement basis for the Highways Network Asset.

In addition, CIPFA's Local Authority Accounting Panel has issued Bulletin 105 which covers issues to consider as part of the preparation of the 2016/17 financial statements. We have discussed these issues with management as well as providing a briefing on emerging accounting issues as part of our financial reporting workshops, attended by officers in February.

Housing Benefit Subsidy assurance arrangements

Our work on the Council's Housing Benefit Subsidy return currently forms part of our responsibilities under our contract with Public Sector Audit Appointments Ltd (PSAA). Our work on the 2017/18 subsidy return will be the last time the work is carried out under this regime.

For the 2018/19 subsidy return, this work will no longer be carried out as part of the appointed auditor's responsibilities. As such, the Council will need to make arrangements to appoint a 'reporting accountant' to provide assurance over the accuracy of the return to it and the Department for Work and Pensions (DWP).

We have been working with the DWP to assist in the design of the new assurance framework and will issue a briefing to officers on the new approach when it is finalised in June.

National reports and other updates

National publications and other updates	
1	Public Accounts Committee – Report on Health and Social Care Integration
2	National Audit Office – Report on 100% business rates retention
3	Local Audit (Public Access to Documents) Act 2017

1. Public Accounts Committee – Report on Health and Social Care Integration

The Public Accounts Committee has recently issued its [report on health and social care integration](#). Its primary conclusions were that:

- The Department of Health and Department of Communities and Local Government do not know what is the most effective balance of limited funding across health and social care;
- The Better Care Fund (BCF) has been used as a means of moving resources from the health sector to social care; and
- The BCF has been rendered redundant as a means of building integration as a result of the introduction of sustainability and transformation plans, and that these plans are neither transparent nor inclusive enough.

2. National Audit Office – Report on 100% business rates retention

The NAO has recently published a report on [planning for 100% local retention of business rates](#). The report finds that DCLG has made good progress in designing the scheme but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

The report also highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested, and stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

3. Local Audit (Public Access to Documents) Act 2017

The Local Audit (Public Access to Documents) Act 2017 received royal assent in April 2017. The Act extends rights of inspection under section 26 of the Local Audit and Accountability Act 2014 to include journalists and citizen journalists.

The Act defines a journalist as 'any person who produces for publication journalistic material (whether paid to do so or otherwise).' While the Act extends rights of inspection, there are no changes in respect of our powers and duties under the Local Audit and Accountability Act 2014. The ability to ask the auditor questions about the accounts, and to make an objection at audit, continue to be restricted to local government electors only.

Contact details

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

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