

29 September 2017

**External Audit - Progress Report –
September 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 in respect of the following: -
 - J Summary of Audit Progress; and
 - J National Publications and other updates

Emerging Issues and Developments

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

Recommendation

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

Contact: James Collins

Tel: 03000 267452

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 Discrimination Act

None

Legal Implications

None

Audit Progress Report

Durham County Council



September 2017

Contents

Audit progress	3
National publications and other updates	4
Contact details	8

Audit progress

Our final Audit Completion Report for 2016/17 is a separate item on the agenda, giving a full update on progress in delivering our audit responsibilities.

In the coming quarter, we will carry out our work the Council's Housing Benefits subsidy return. The deadline for completing this work is 30 November 2017. We will detail the results of this work later in the year via a grants letter.

The next section of this progress report includes details of the annual quality assessment of Mazars and other audit supplies which has been carried out by Public Sector Audit Appointments together with some other publications that may be of interest to the Committee.

National publications and other updates

National publications and other updates	
1.	2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017
2.	Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017
3.	Report of the Comptroller and Auditor General: Whole of Government Accounts 2015-16, National Audit Office, July 2017
4.	Progress in setting up combined authorities, National Audit Office, July 2017
5.	The levy, apprenticeships and the public sector, CIPFA, May 2017
6.	Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017
7.	Cyber security and information risk guidance for Audit Committees, NAO, September 2017

1. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017

PSAA has published the work programme and scales of fees for 2017/18 audits of principal local government and police bodies. There are no changes to the overall work programme for 2017/18. Scale fees for 2017/18 have therefore been set at the same level as the fees applicable for 2016/17. This is the final year for which PSSA will set fees under the transitional arrangements made by DCLG.

<http://www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

2. Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2016/17 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work. The review included assessing compliance with the HB COUNT guidance;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;

- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2015/16 work.

The report concludes the following in respect of Mazars LLP:

"Mazars is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2016/17, Mazars' combined audit quality and regulatory compliance rating was green. The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor. Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2016/17 indicators scored as green".

Figure 1: 2017 Comparative performance for audit quality and regulatory compliance

	BDO	EY	Deloitte	PwC	Grant Thornton	KPMG	Mazars
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

<http://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

3. Report of the Comptroller and Auditor General: Whole of Government Accounts 2015-16, National Audit Office, July 2017

The WGA provides the most complete and accurate picture of the financial performance and position of the UK public sector in 2015-16.

The WGA shows that government borrowing grew by £86.1 billion in 2015-16 and an increase in tax revenues did not offset the increase in government expenditure. Total expenditure increased from £811.9 billion in 2014-15 to £937.7 billion in 2015-16 due to an increase of £126 billion because of a change in the rate used to value future liabilities, an increase in pension scheme costs of £6.7 billion, and an increase in social security costs of £4.8 billion. Wages and salaries remained relatively stable at £149.6 billion compared with £148.5 billion in 2014-15, despite an increase in full-time equivalent staff of 27,656. However, revenues from income tax, corporation tax and national insurance contributions only grew by £34 billion to £693.9 billion which was not enough to offset the rise in expenditure.

While the Comptroller and Auditor General has continued to qualify his opinion on the accounts, the report highlights that HM Treasury has made significant progress in improving the accuracy of the financial statements.

<https://www.nao.org.uk/report/report-of-the-comptroller-and-auditor-general-whole-of-government-accounts-2015-16/>

4. Progress in setting up combined authorities, National Audit Office, July 2017

The report concludes that for combined authorities to deliver real progress and not just be another ‘curiosity of history’ like other regional structures before them, they will need to demonstrate that they can both drive economic growth and also contribute to public sector reform. Key points from the report are summarised below.

- There is a logic to establishing strategic bodies designed to function across conurbations and sub-regional areas, and there is a clear purpose to establishing combined authorities especially in metropolitan areas, as economies and transport networks operate at a scale greater than individual local authority areas.
- The introduction of combined authorities, however, has meant that inherently complex structures have been added to England’s already complicated local government arrangements, according to today’s report from the National Audit Office.
- The evidence that investment, decision-making and oversight at this sub national level is linked to improved local economic outcomes is mixed and inconclusive.
- A number of authorities have been unable to bring local authorities together to establish combined authorities, while areas with a long history of working together have often found it most straightforward to establish combined authorities.
- The capacity of most combined authorities is currently limited and the lack of geographical coherence between most combined authorities and other providers of public services could make it more problematic to devolve more public services in the future.

<https://www.nao.org.uk/report/progress-in-setting-up-combined-authorities/>

5. The levy, apprenticeships and the public sector, CIPFA, May 2017

CIPFA summarises this ‘think piece’ as follows:

The arrival of the apprenticeship levy has been heralded with a mixture of eager anticipation, dread and a lot of discussion. It is likely to be a while before we see the levy running smoothly and guidance will inevitably need to be regularly updated as the system becomes embedded.

The introduction of the apprenticeships levy sees both opportunities and risks for the public sector and only time will tell how successful the system proves to be. There will be winners and losers and the targets to be achieved may prove a challenge, but the levy certainly can’t be overlooked. Employers need to be aware of the options and ways to use the levy to develop a flexible and skilled workforce. CIPFA sees the levy as a further opportunity for widening access to the finance profession and providing a much needed platform to improve productivity in the economy.

This Insight provides background and introduction to what apprenticeships mean for the public sector.

<http://www.cipfa.org/policy-and-guidance/reports/the-levy-apprenticeships-and-the-public-sector>

6. Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017

CIPFA summarises this ‘think piece’ as follows:

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 the great hope across all political parties.

However, local health and social care providers don’t 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, devolution initiatives and pilots linked to the five-year forward plan for the NHS will be dissipated. This CIPFA Briefing looks at the conditions needed for integration to be successful.

<http://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities>

7. Cyber security and information risk guidance for Audit Committees, NAO, September 2017

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

Contact details

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

Mark Kirkham
Partner
mark.kirkham@mazars.co.uk

James Collins
Senior Manager
james.collins@mazars.co.uk

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

www.mazars.co.uk