

# Audit Progress Report

Durham County Council

February 2018





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# 1. AUDIT PROGRESS

## 2016/17 Certification of claims and returns

Work on the 2016/17 housing benefits subsidy claim is complete. We certified the claim before the Department of Work and Pensions deadline of 30 November 2017. This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA). As the Council's appointed auditor we are required to report the results of our certification work to those charged with governance. Section 3 of this report is our 2016/17 Grants Letter giving further details of the findings from our housing benefit subsidy certification work.

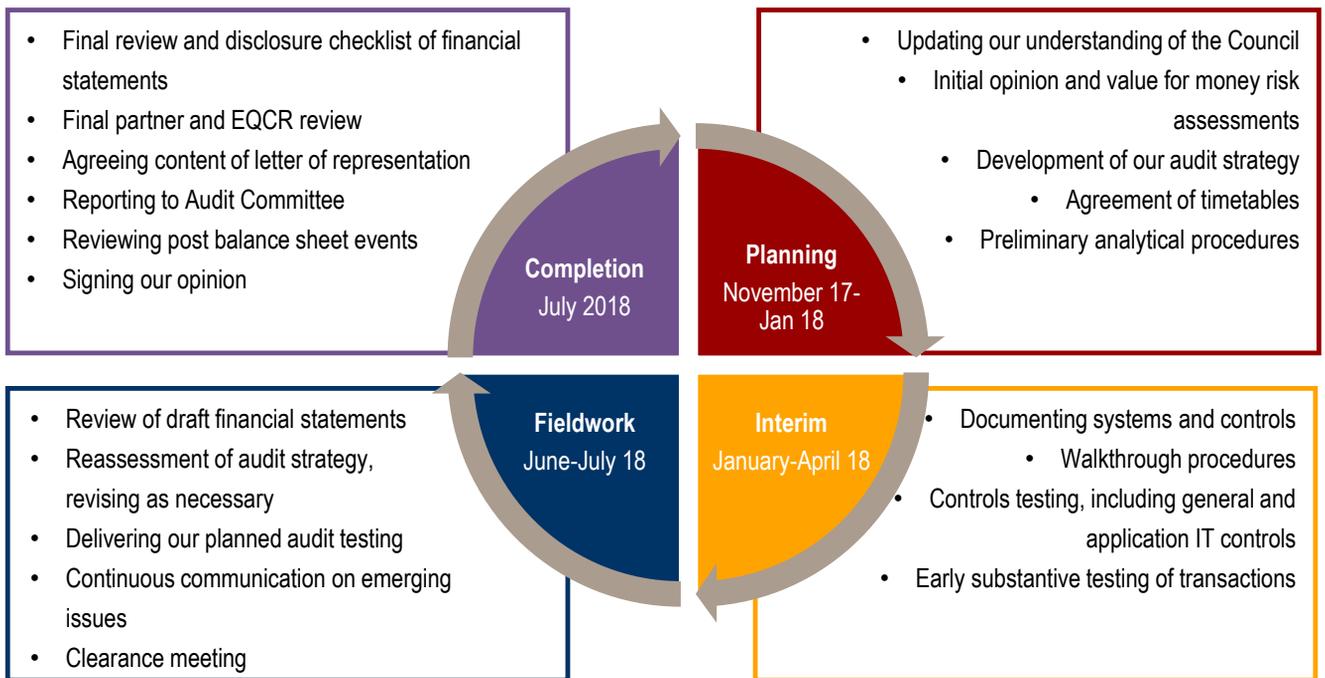
The 2017/18 certification work will remain part of the national arrangements managed by PSAA. It should be noted that the arrangements for the 2018/19 certification work will transfer from PSAA to DWP. Local authorities will be required to appoint a reporting accountant to complete this work.

## 2017/18 audit planning and interim

The table below details the audit process. We have commenced our planning and interim stages of the 2017/18 audit. To date we have:

- completed our system documentation and walkthroughs of the material financial systems;
- updated our planning documents including our understanding of the entity and value for money risk assessment;
- initiated early substantive testing of journals, income, expenditure and payroll;
- completed our understanding of the IT environment and commenced testing of general IT controls;
- continued to meet with officers; and
- continued to meet with Internal Audit.

Our 2017/18 Audit Strategy Memorandum is included on the agenda for this meeting.



## 2. 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 2017– 31 March 2018?
- 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 2017/18?
- 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?

## 2. REQUEST FOR INFORMATION

### 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?
- 2) 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:

- 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 ISA 570. 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.

## 3. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication	
1	PSAA audit procurement and fee consultation , December 2017	For information
2	PSAA's Report on the results of auditors' work 2016/17: Local government bodies, December 2017	For information
3	Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd	For information
4	NAO report PFI and PF2, January 2018	For information
5	NAO report: Sustainability and transformation in the NHS, January 2018	For information
6	Technical updates	For information

### 1. PSAA audit procurement and fee consultation

The consultation sets out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2018/19 financial statement at bodies that have opted into PSAA's national auditor appointment scheme.

PSAA propose that scale audit fees for 2018/19 should reduce by 23 per cent, compared to the fees applicable for 2017/18. This reduction is possible as a result of the favourable prices secured from audit firms in the recent audit services procurement. It follows a period from 2012/13 to 2017/18 in which scale fees reduced significantly by an aggregate of 55 per cent.

The proposed audit fee for Durham County Council or the 2018/19 audit is £193,030 (compared to £250,688 for the 2017/18 audit).

<https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

### 2. PSAA's Report on the results of auditors' work 2016/17: Local government bodies, December 2017

In December 2017 Public Sector Audit Appointments published its Report on the results of auditors' work 2016/17: Local government bodies. This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

### 3. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

The latest quarterly 2017/18 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

### 4. PFI and PF2 report

This report presents information on: the rationale, costs and benefits of the Private Finance Initiative (PFI); the use and impact of PFI, and ability to make savings from operational contracts; and the introduction of PF2.

There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion. Annual charges for these deals amounted to £10.3 billion in 2016-17. Even if no new deals are entered into, future charges which continue until the 2040s amount to £199 billion. Note this report was prepared prior to the construction from Carillion going into liquidation.

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# 3. NATIONAL PUBLICATIONS AND OTHER UPDATES CONTINUED

## 5. NAO report: Sustainability and transformation in the NHS

The report notes that the NHS received an additional £1.8 billion Sustainability and Transformation Funding in 2016-17. Whilst this has helped the NHS improve its financial position from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. However despite the overall financial position improving, the report found that the NHS is struggling to manage increased activity and demand within its budget and has not met NHS access targets. This has impacted the money available for longer-term transformation with a greater reliance on non recurrent savings.

The report notes that progress has been made in setting up 44 new partnership arrangements across health and local government, to support a more strategic approach to meeting the demand for health services within the resources available. However, the report also found that the effectiveness of these partnerships varies and their tight financial positions make it difficult for them to shift focus from short-term day-to-day pressures to longer-term service transformation.

<https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/>

Separately to this report NHS England (Sustainability and Transformation Partnerships Progress Dashboard) has released its first rankings of the 44 sustainability and transformation partnerships (STPs) across the country. The progress dashboard gives an initial baseline view of STPs' work and tracks the combined achievements of local services through 17 performance indicators across nine priority areas: emergency care; elective care; safety; general practice; mental health; cancer; prevention; finance and system leadership.

Each area falls into three core themes of hospital performance, patient-focused change and transformation. This forms an overall assessment of each STP on a scale of 1 to 4: 'outstanding' (1); 'advanced' (2); 'making progress' (3); and 'needs most improvement' (4). The results show that five STPs have been rated as 'outstanding', whilst five rated as 'needs most improvement'. Another 20 are rated as 'advanced', while the remaining 14 are 'making progress'. NHS England intends to update the dashboard annually to enable progress to be tracked. An extract from the summary is shown below of regional STPs.

<https://www.england.nhs.uk/publication/sustainability-and-transformation-partnerships-progress-dashboard-baseline-view/>

STP	Overall progress
Northumberland, Tyne and Wear	Category 2 – advanced
West, North and East Cumbria	Category 2 – advanced
DDT, Hambleton, Richmondshire and Whitby	Category 1 – outstanding
Lancashire and South Cumbria	Category 2 – advanced
West Yorkshire	Category 3 – making progress

## 6. Technical updates

On the 6 February 2018 members of the Council finance team attended our 2017/18 Local Government financial reporting update at Durham County Cricket Club, Chester-Le-Street. This update covered changes to the 2017/18 Code and other matters including;

- accounting for financial guarantees;
- changes to the Prudential Framework; and
- accounting for the apprenticeship levy;

It also had a forward look to 2018/19 and beyond and covered matters including:

- consideration of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts with customers) on 2018/19 financial year; and
- consideration of IFRS16 (Leases) on 2019/20 financial year.

Further detail on these new standards is provided in appendix B of the Audit Strategy Memorandum.

On the 7 February 2018 we held our Countdown to General Data Protection Regulation (GDPR) Workshop which was attended by members and officers of the Council. The event focused on the countdown to the introduction of GDPR and also included a session on balancing the use of IT as an enabler whilst also managing the risks it poses.

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# 4. 2016/17 GRANTS LETTER



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28 February 2018

Dear Members

## Results of certification work 2016-17

As the Council's appointed auditor, we acted as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2016/17 the only claim or return within this regime was the Housing benefit subsidy return. This letter reports the findings from this work.

In 2016/17 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

The 2016/17 Housing benefits return was amended and was subject to a qualification letter. Detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to the Department for Work and Pensions (DWP). The table below details our findings.

Claim or return	Value of claim or return	Amended (1)	Qualified (2)
Housing benefit subsidy	£180,823,563	Yes	Yes

## 1) Amendments

The final subsidy claim included £25,470 of granted benefit associated with rent rebates. We expected there to be no entries in the rent rebate cells due to the HRA properties being transferred from council ownership via LSVT in 2015. These entries relate to Real Time Information (RTI) changes notified to the Council in 2016-17 by the DWP. The Council has an obligation to investigate notified RTI changes. There were a total of 257 rent rebate claims affected by RTI changes and all entries were for previous years tenants of HRA properties. Council officers tested all 257 cases to ensure the correct changes had been made. Errors were identified resulting in total subsidy claimed reducing by £26,787. As auditors we re-performed 10% of the Councils testing (including all identified errors) to satisfy ourselves the adjustments made to the claim were appropriate.

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## 4. 2016/17 GRANTS LETTER CONT.

### Qualification issues

Where an error was identified in sample testing and it was not possible to quantify the error the matter was reported as an extrapolated error in a qualification letter to the Department.

Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the benefit types (non-HRA rent rebates and rent allowances). We identified no errors in our 2016/17 initial testing.

Certification Instruction BEN01 and the associated HBCOUNT approach instructs where initial testing does not match with cumulative audit knowledge and experience (CAKE) then additional testing must be completed. As in previous years, additional testing was completed by the Authority testing a further 40 cases looking at specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This additional testing identified errors in 2016/17 relating to:

- Incorrect self-employed client information used in the calculation of rent allowance. Errors resulted in both under and over payment of benefit. We reported in our qualification letter the extrapolated impact of errors resulting in overpayments. We are not required to extrapolate errors which result in the underpayment of benefits.
- Errors in recording claimant's capital in rent allowance calculations. These errors had no impact on the subsidy claimed.
- Incorrect housing association rent used in a rent allowance calculation. The errors identified resulted in under and over payment. We are not required to extrapolate on errors which result in the underpayment of benefit.

Where underpayments were identified the authority ensured those claims affected were amended and the entitled benefit was awarded to the claimant. A total of seven claims with a value of £594.86 were identified as being underpaid. Remedial actions have been taken by officers to prevent similar errors occurring in the future.

I would like to express my thanks for the assistance of the Council's housing benefits team during the certification work.

### Fees

PSAA set an indicative fee for our work on the Council's Housing benefit subsidy return. This indicative fee, and the final fee charged for 2016/17, is detailed in the table below:

Claim or return	2016/17 indicative fee	2016/17 final fee	2015/16 final fee
Housing benefit subsidy	£24,158	£24,158	£20,062

Yours faithfully

  
MJ Kirkham (Feb 15, 2018)

Mark Kirkham

Partner

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## 4. CONTACT DETAILS

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

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