

## **Audit Committee**



**29 November 2018**

## **External Audit - Progress Report – November 2018**

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### **Report of the External Auditor**

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#### **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:
  - Summary of Audit Progress; and
  - National Publications and other updates.

#### **Summary of Audit Progress**

3. The report details the progress to date on the 2018/19 external audit.

#### **National publications and other updates**

4. This section provides an update on other areas that Members of the Audit Committee may find useful.

#### **Recommendation**

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

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## **Appendix 1: Implications**

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### **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

November 2018





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- 2. National publications**

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# 1. AUDIT PROGRESS

## **Purpose of this report**

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor.

## **Audit progress**

This is our first progress report in respect of the 2018/19 audit year.

Since the last meeting of the Committee we have:

- arranged to meet with finance in respect of planning for the 2018/19 audit; and
- continued with our regular meetings with senior management and review of agenda papers and minutes, to inform our risk assessments for our 2018/19 audit.

We will present our Audit Strategy Memorandum to the Committee for discussion at its next meeting (February 2019).

Our planning work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

## **Certification of claims and returns**

As Members will be aware, the Council is required by funding bodies to arrange independent certification of a range of grant claims and returns.

Work on claims and returns since our last update includes:

- 2017/18 Teachers Pension Return; we agreed an engagement pack with management, the fee being £4,900 plus VAT, and our work was undertaken in October 2018; ahead of the Teachers' Pension deadline of 30 November 2018. There are no significant issues arising from the work to bring to your attention.

Our work on the Council's Housing Benefit Subsidy claim is proceeding as expected in order to certify the claim by the DWP deadline of 30 November 2018. We will report findings from this work to the Committee at its next meeting.

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points
<b>National Audit Office (NAO)</b>		
1.	<b>Exiting the EU</b>	The NAO has published a number of reports on the exit from the EU during 2018.
2.	<b>Departmental overview – Ministry of Housing, Communities and Local Government</b>	Focus on three key areas: financial sustainability; housing and homelessness; and devolution and reorganisation.
3.	<b>Departmental overview – Local authorities</b>	The main body of the report covers: financial sustainability, housing and homelessness, and adult social care.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>		
4.	<b>Statement expressing concerns with Councils funding commercial investment through borrowing</b>	CIPFA statement and link to article.
5.	<b>Local Authority Leasing Briefing 3</b>	Key issue for local authorities and statement of accounts.
<b>Public Sector Audit Appointments Ltd (PSAA)</b>		
6.	<b>Report on the results of auditors' work 2017/18: Principal local government and police bodies</b>	Durham County Council met the deadline. Report notes encouraging results across the country.
7.	<b>Consultation on 2019/20 scale of fees for opted-in bodies</b>	2019/20 fees proposed to remain the same as 2018/19 for Durham County Council.
8.	<b>Oversight of audit quality, quarterly compliance reports</b>	No significant issues.
9.	<b>Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018</b>	For information

## 2. NATIONAL PUBLICATIONS

### 1. Exiting the EU, National Audit Office

The National Audit Office has produced a number of publications on the UK's exit from the EU, including:

- The UK border: preparedness for EU exit;
- Department for Environment, Food and Rural Affairs;
- Department for Transport;
- Consumer protection, competition and state aid; and
- Exiting the EU: the financial settlement.

[https://www.nao.org.uk/search/pi\\_area/exiting-the-eu/type/report](https://www.nao.org.uk/search/pi_area/exiting-the-eu/type/report)

### 2. Departmental overview: Ministry of Housing, Communities and Local Government (MHCLG), National Audit Office

The Departmental Overview is designed to provide a quick and accessible overview of the Department and its performance over the last year. The report focuses on the Department's responsibilities setting out how it is structured, how it spends its money, and its major programmes. It also covers key developments in its areas of work, including exiting the European Union, and findings from recent NAO reports.

The main body of the report focuses on three key areas: financial sustainability; housing and homelessness; and devolution and reorganisation. The report concludes by setting out future developments, risks and challenges impacting on MHCLG.

The report also includes a section on the Department for Exiting the EU (pdf page 8).

<https://www.nao.org.uk/report/departmental-overview-ministry-of-housing-communities-and-local-government-2017-18/>

### 3. Departmental overview: local authorities

The report summarises the work of local authorities, including:

- what they do and how they are organised;
- the system of accountability;
- where they get their funding and how they spend their money; and
- major programmes and developments across local authorities' main business areas and services.

The main body of the report covers: financial sustainability; housing and homelessness; and adult social care.

The overview addresses further developments in the sector, including those on 'fair funding', empty homes and the government's new Rough Sleeping Strategy will be driven by local authorities. It draws attention to the synergies required across local authorities and with MHCLG for the successful implementation of these programmes.

<https://www.nao.org.uk/report/departmental-overview-local-authorities-2017-18/>

## 2. NATIONAL PUBLICATIONS

### 4. Statement expressing concerns with Councils funding commercial investment through borrowing, CIPFA

The Committee may be interested to note the CIPFA statement issued recently expressing concerns around commercial investment. The statement raises concerns with potential practices related to borrowing to fund commercial investment. CIPFA confirm in the statement that they will be issuing further guidance on the issue shortly.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/statement-from-cipfa-on-borrowing-in-advance-of-need-and-investments-in-commercial-properties>

<https://www.publicfinance.co.uk/news/2018/10/cipfa-warns-councils-over-serious-commercial-activity-concerns>

### 5. Local Authority Leasing Briefing 3, CIPFA

This briefing focuses on discount rates, lessor accounting, disclosure requirements, concessionary leases – lessees and the measurement of the service concession arrangement (PFI/PPP) liability.

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

### 6. Report on the results of auditors' work 2017/18: Principal local government and police bodies, Public Sector Audit Appointments Limited

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 at 495 principal local government and police bodies for 2017/18.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 87 per cent of audited bodies received an audit opinion by the new deadline.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The most common reasons for auditors issuing non-standard conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates – 16 bodies;
- corporate governance issues – 12 bodies;
- financial sustainability concerns – 6 bodies; and
- procurement/contract management issues – 5 bodies.

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



## 2. NATIONAL PUBLICATIONS

### 7. Consultation on 2019/20 scale of fees for opted-in bodies, Public Sector Audit Appointments Ltd

Public Sector Audit Appointments (PSAA) has published its consultation on the 2019/20 scale of fees for principal local government bodies that have opted into the appointing person arrangements.

The consultation proposes that scale audit fees for 2019/20, the second year of the five-year appointing period, should remain the same as the fees applicable for 2018/19. PSAA will review and update its assumptions and estimates each year, and consult on scale fees for the following year.

<https://www.psa.co.uk/audit-fees/2019-2020scaleoffees/>

### 8. Oversight of audit quality, quarterly compliance reports 2018/19 Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

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

### 9. Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 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;
- 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

The report sets out that:

- Mazars is meeting PSAA's standards for overall audit quality and regulatory compliance requirements;
- Mazars' combined audit quality and regulatory compliance rating was green for 2017/18;
- The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor; and
- Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green and the overall weighted audit quality score of 2.55 having increased slightly from last year's 2.45.

#### Summary of PSAA annual assessments – overall combined

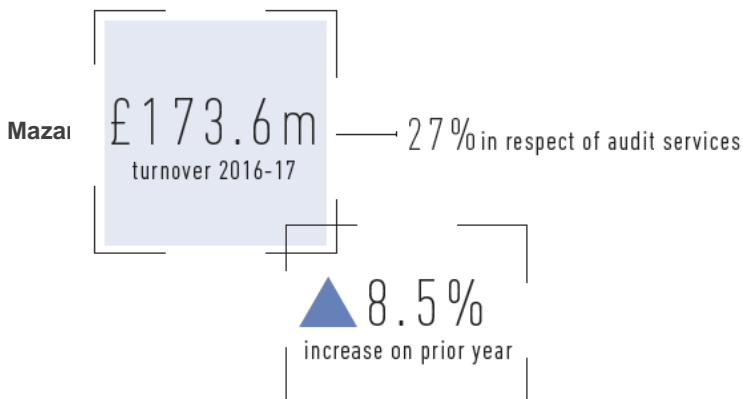
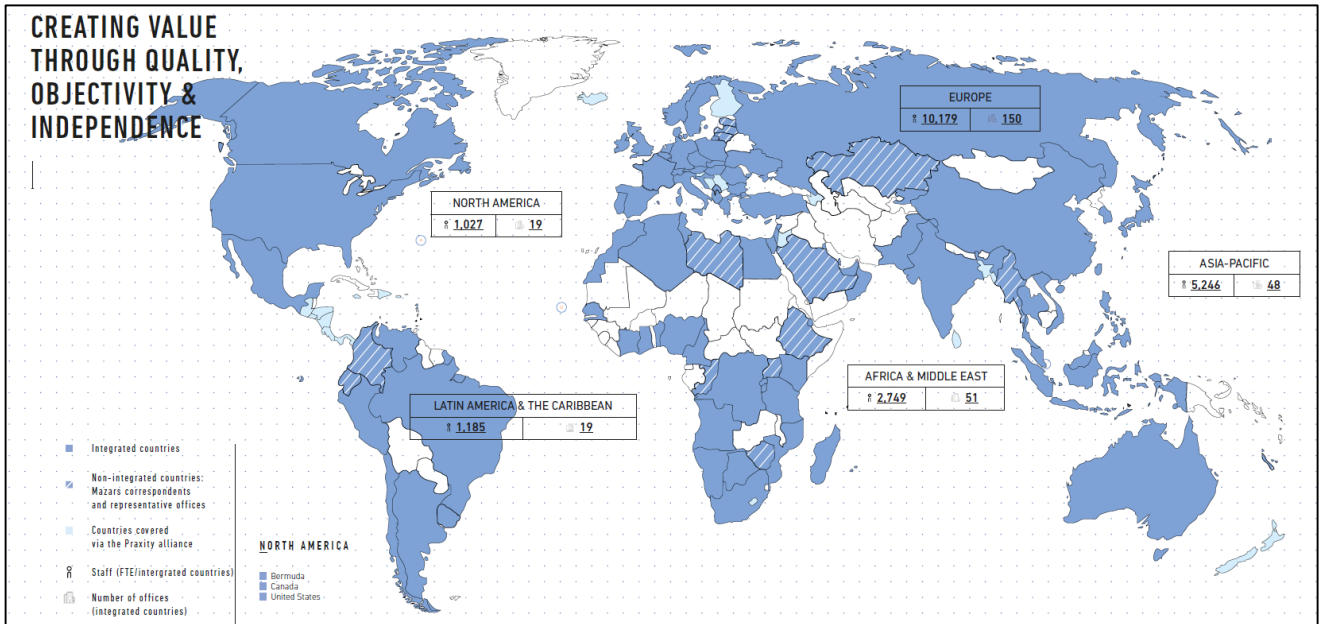
	BDO	EY	DT	PwC	GT	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

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

# MAZARS AT A GLANCE

## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



As at 31 August 2017

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