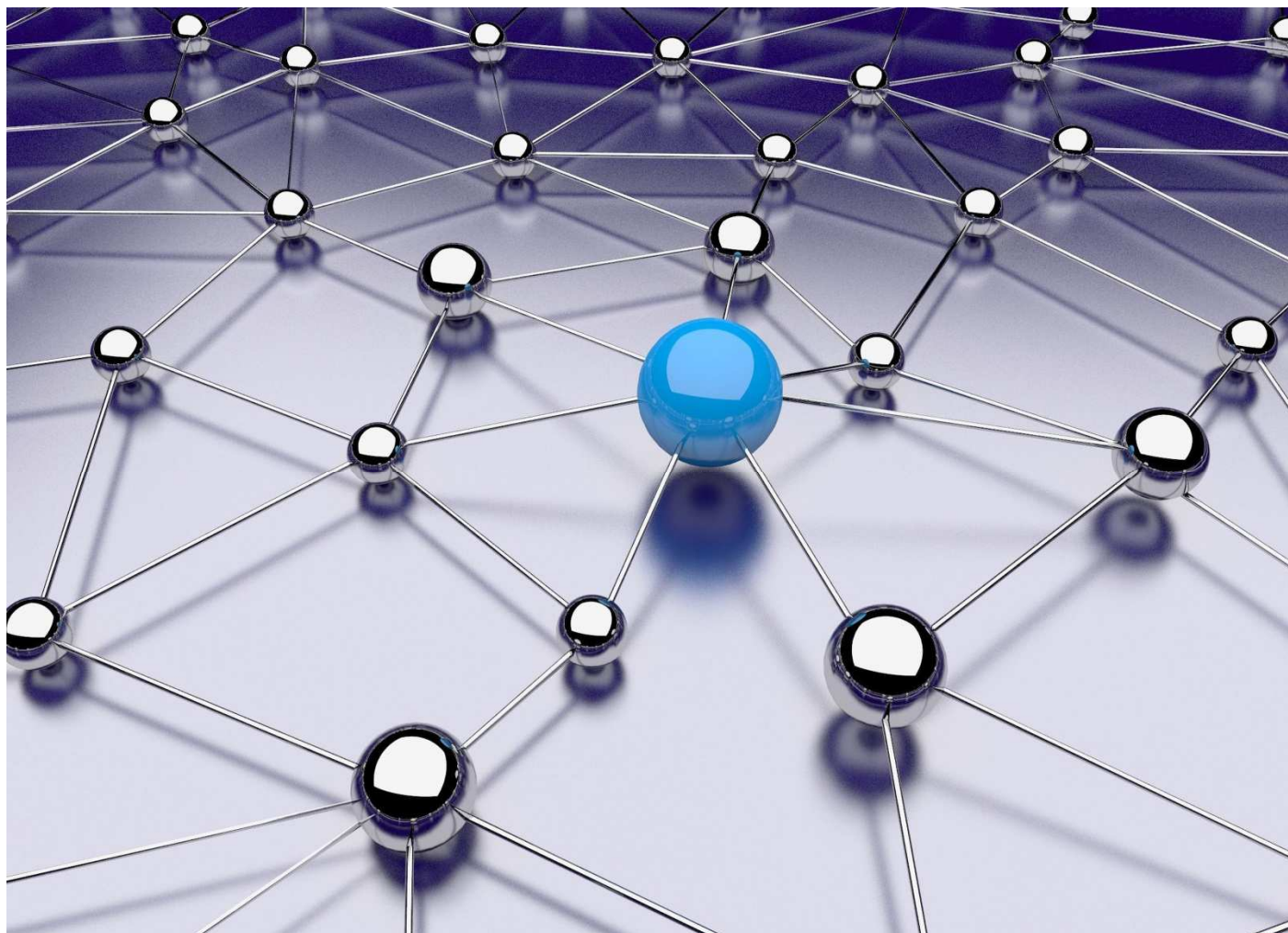


North Tyneside Council

Audit Progress Report

November 2015



Contents

01 Introduction.....	2
02 2015/2016 audit progress	3
03 National publications and other updates.....	4
04 Contact details.....	7

Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to North Tyneside Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit Committee of North Tyneside Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 2015/2016 audit progress

2015/2016 planning

This is our first progress report in respect of the 2015/2016 audit year; in the coming quarter we will:

- carry out our initial planning in respect of 2015/2016, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- liaise with your internal auditors to both share common knowledge and ensure no duplication, including updating our joint working protocol;
- on-going liaison with senior officers and consideration of key agendas and papers; and
- plan and carry out any interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the next Audit Committee meeting on 30 March 2016.

03 National publications and other updates

National publications and other updates	
1.	Oversight of audit quality , <i>Public Sector Audit Appointments Ltd, Quarter 1 2015/16 report and annual report for 2014/2015</i>
2.	Statement of Responsibilities of Auditors and Audited Bodies , <i>Public Sector Audit Appointments Limited, 2015/16</i>
3.	Consultation on 2016/2017 work programme and scales of fees , <i>Public Sector Audit Appointments Ltd, October 2015</i>
4.	A Practical Guide for Local Authorities on Income Generation , 2015 edition, <i>CIPFA, November 2015</i>
5.	Social Value , <i>CIPFA, November 2015</i>
6.	An Introductory Guide to Local Government Finance , 2015 edition, <i>CIPFA, November 2015</i>

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| 1. | Oversight of audit quality: quarter 1 2015/16 report and annual report for 2014/2015 , <i>Public Sector Audit Appointments Ltd</i> |
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Details of the quarterly compliance report for Mazars are set out below.

Quarterly regime compliance monitoring reports

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

There are no issues arising highlighted in respect of Mazars LLP in the quarter 1 report.

Annual regulatory compliance and quality report for 2014/2015, June 2015

<http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The audit quality and regulatory compliance monitoring for 2014/2015 incorporated a range of measurements and checks including a:

- review of key indicators;
- review of the firm's own quality monitoring regime; and
- review of client satisfaction surveys.

The report highlights Mazars is meeting required standards for overall audit quality and regulatory compliance requirements, with an overall assessment of green, one of only two firms to achieve this rating. The report sets out how the assessment was calculated, with the overall performance assessment being broken down into the following categories:

- audit quality;
- financial statements audit work;
- whole of government accounts work (where applicable);
- VfM conclusion audit work;
- housing benefit work (where applicable);

- regulatory compliance; and
- client satisfaction surveys.

On-going improvement and efficiency

Mazars remains committed to improving audit quality and efficiency and is carrying out a review of its processes and methodologies in light of the firm-specific Annual Report as well as feedback to other firms. The report highlighted some areas for improvement, as detailed below (with our response to these set out in Appendix 4 of the report).

Firm-wide recommendations

- Improve scepticism in challenging the appropriateness of assumptions in key areas of audit judgment (e.g. impairment).
- Improvement in the sufficiency and appropriateness of audit procedures being performed (in particular revenue recognition).
- Adequately identify the threats and related safeguards to auditor independence.
- Review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion.
- Clearly justify and document materiality considerations and not default automatically to the top of the materiality range.
- Improve journals testing.

Financial statements

- Ensuring there is sufficient documentation on file to support audit judgements, particularly around testing of journal controls and challenge of management assertions.
- Ensuring that there is sufficient documentation on file on the consideration of differences in bank reconciliations and direct confirmation of bank accounts.
- Ensuring that the errors uncertainties working papers are updated at the conclusion of the audit.
- Ensuring that sufficient audit procedures are undertaken over the consideration of completeness of the accounts payable balance.

VFM

- Ensuring that consideration for VFM is focused on arrangements that were in place during the year without placing too much reliance on actions taken by management after year-end.

2. Statement of Responsibilities of Auditors and Audited Bodies, *Public Sector Audit Appointments Limited*

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code. Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;
- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

3. Consultation on 2016/2017 work programme and scales of fees, *Public Sector Audit Appointments Ltd October 2015*

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/2017 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/2017. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/2016 previously set by the Audit Commission. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/2015 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies.

The work that auditors will carry out on the 2016/2017 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

Fees beyond 2016/17

The current contracts with audit firms will run until 2017 for NHS bodies, ending with completion of the audit of the accounts for 2016/2017. NHS trusts and clinical commissioning groups will be responsible for appointing their own auditors and agreeing their audit fees from 2017/2018.

<http://www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

4. A Practical Guide for Local Authorities on Income Generation, 2015 edition *CIPFA, November 2015*

CIPFA has published its latest practical guide on income generation. Income from fees and charges is a key financial area for local authorities, and much has happened since CIPFA published the last edition of this guide in 2013. In 2015 local authorities will look at income in its widest sense as a key factor in their funding equation. Financial uncertainties continue to motivate local authorities to evaluate every possible funding source.

5. Social Value: defining, delivering, reporting *CIPFA, November 2015*

This CIPFA publication looks at social value and its practical application and assessment. It covers:

- the legislation and related guidance;
- how this links to guidance on best value;
- the range of definitions of social value;
- how social value relates to outcomes commissioning;
- examples of how social value is being interpreted by local authorities; and
- approaches to measuring social value.

6. An Introductory Guide to Local Government Finance, 2015 edition *CIPFA, November 2015*

2015/16 has seen a change in the landscape of local government with the growth of the devolution agenda, with Manchester leading the way. The Cities and Local Government Devolution Bill is currently progressing through Parliament.

The pace of fiscal devolution has been slower and pressure is still being brought to bear for greater freedoms for local authorities around the financing of local services. These freedoms are not reflected in the current financing options but with the changes to business rates in Manchester and Cambridge and the debates currently taking place, the issue of how local government is financed will continue to be important.

<http://www.cipfa.org/policy-and-guidance/publications?tab=&filters=%7b7D9EAA93-8748-4746-9B73-DE0D7A0A7695%7d#filters>

04 Contact details

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

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