

# North Tyneside Council Audit Progress Report

November 2016



North Tyneside Council

# Contents

01 Introduction .....	2
02 Audit progress.....	3
03 National publications and other updates .....	5
04 Contact details .....	10

*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 the 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.

# 02 Audit progress

## 2015/16 audit completion

- **Issue of certificate:** as Members may recall, the certificate for 2015/16 was not issued pending completion of Whole of Government Accounts audit work which had a later deadline of 21<sup>st</sup> October 2016. We are pleased to confirm the certificate was issued ahead of the deadline, on the 18<sup>th</sup> October 2016, formally closing the 2015/16 audit.
- **Annual Audit Letter:** our Annual Audit Letter for 2015/16 is on the agenda of the full Council meeting on the 24<sup>th</sup> November 2016.
- **Grant claims:** work is on-going on the grants relevant to the Council for which we carry out work, with deadlines of the end of November and December. Upon completion of that work, we will provide a summary report to the Council.

## 2016/17 audit progress

In the coming quarter, work will include the areas detailed below.

- **Audit Strategy Memorandum:** we will meet with officers ahead of drafting our 2016/17 Audit Strategy Memorandum for inclusion on the next Audit Committee agenda, in order to agree the scope and timing of work as well as any significant risks relevant to both the opinion and VFM conclusion work.  
As part of this we will update our knowledge of the Council and complete key high level assessments of the control environment and the fraud environment as well as agree the timing of our IT audit team's assessment of the IT environment.
- **Updated guidance:** the National Audit Office has recently issued updated guidance in respect of the VfM review which we will take into account in our planning.
- **Engagement Quality Control Reviewer (EQCR):** an EQCR will again be appointed to the audit due to the level of expenditure, in accordance with Mazars' procedures. This role provides useful additional quality assurance on our audit.
- **Review of previous year:** we will discuss the previous year's audit and consider any areas for improvement, including carrying out early testing to mitigate the impact on the year-end. We are also in the process of drafting a more detailed Final Accounts Memorandum, reflecting on the 2015/16 accounts audit, to facilitate this discussion with officers.
- **Walkthroughs and interim visits:** we are in the process of agreeing the timing of walkthroughs of the key financial systems.
- **Run our annual accounts workshops:** once we have agreed dates, we will ensure officers receive invites.

- **Internal training:** as part of our commitment to quality, team members have already attended our annual audit training conference which includes feedback from quality reviews to take into account in the coming year.
- **Client satisfaction surveys:** we have recently sent out the client satisfaction surveys and we would be grateful for feedback to enable us to continue to develop our approach and add further value.
- **Infrastructure:** as per the briefing brought to the September Audit Committee by officers, this was a key area for 2016/17, with an estimated £1 billion of assets coming on the Council's balance sheet.

The CIPFA/LASAAC Code Board has recently (November 2016) taken the decision to postpone implementing the change of measurement basis for Highways Network Assets. As such, it will no longer be applicable for the 2016/17 financial year.

We have been liaising with officers over the approach. In addition, our technical team has attended national CIPFA events on this topic. Given the earlier deadlines in 2017/18, we will work with the Council over the approach so as to minimise the impact in 2017/18.

# 03 National publications and other updates

National publications and other updates	
1.	<b>Local Public Service Reform</b> , <i>National Audit Office, September 2016</i>
2.	<b>Children in need of help or protection</b> , <i>National Audit Office, November 2016</i>
3.	<b>Departmental Overview 2015/16: Department for Communities and Local Government</b> , <i>National Audit Office, November 2016</i>
4.	<b>Understanding Local Authority Financial Statements</b> , <i>CIPFA, September 2016</i>
5.	<b>Alternative Delivery Models</b> , <i>CIPFA, October 2016</i>
6.	<b>2017/18 work programme and scale of fees</b> , <i>Public Sector Audit Appointments Ltd, November 2016</i>
7.	<b>Outline procurement strategy</b> , <i>Public Sector Audit Appointments Ltd, October 2016</i>
8.	<b>Oversight of audit quality: annual regulatory and compliance report 2015/16</b> , <i>Public Sector Audit Appointments Ltd, August 2016</i>
9.	<b>Oversight of audit quality</b> , <i>Public Sector Audit Appointments, quarterly compliance reports 2016/17</i>

## 1. Local Public Service Reform, National Audit Office, September 2016

The National Audit Office undertook research early in 2016 to ascertain:

- how local public service reform is being pursued in eight places in England;
- what the enablers and barriers are; and
- how the Government is supporting reform at a local level.

In September 2016 they published a report summarising their findings and identifying sources of help for public services needing to redesign services to be financially sustainable. The report concludes that by working together, and with service users and citizens local public services can both improve outcomes and save money but a strategy is needed that:

- prevents or reduces demand for costly services;
- makes it easier for people to get access to the support they need; and
- redesigns services to meet people's needs in a more integrated and effective way.

The report is available on their website.

<https://www.nao.org.uk/report/local-public-service-reform/>

## 2. Children in need of help or protection, *National Audit Office, September 2016*

The Department for Education recognised since 2010 that child protection services are not good enough but its subsequent response has not yet resulted in better outcomes. Spending on children's social work, including on child protection, varies widely across England and is not related to quality. Neither the DfE nor authorities understand why spending varies. The actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality, according to the National Audit Office.

The Department's interventions to improve failed local services for children are neither risk-based nor early enough. The Department only intervenes when Ofsted has already found services to have failed local children. It does not plan to use performance information to anticipate risks of failure. Neither the Department nor the 23% of authorities rated *Good* yet have the capacity and capability to intervene effectively on a wider scale.

The Department faces significant challenges in transforming children's services, not least how to integrate this with a concurrent transformation of its wider operations by the end of 2017. It is critical that the Department learns from good practice and mistakes elsewhere in government. For example, the Youth Justice Board made improvements to the youth justice system which have led to reductions in recorded youth crime.

<https://www.nao.org.uk/report/children-in-need-of-help-or-protection/>

## 3. Departmental Overview 2015/16: Department for Communities and Local Government, *National Audit Office, November 2016*

This Departmental Overview looks at the Department for Communities and Local Government and summarises its performance during the year ended March 2016, together with recent reports on it. This guide is designed to provide a quick and accessible overview of the Department and focuses in particular on where we believe the Department's performance could be improved.

It covers the department's responsibilities and how it spends its money:

- financial management;
- reported performance; and
- issues identified in NAO reports

<https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/>

## 4. Understanding Local Authority Financial Statements, *CIPFA, September 2016*

This publication updates previous CIPFA guidance designed to make the complex financial statements required for local (including fire) authorities more understandable. The 2016/17 Code includes a revised format that is closer to that used for management reporting during the year. The document describes the changes and identifies opportunities to simplify presentation and make the messages clearer regarding:

- comparison with budgets;
- reserves positions; and
- cash flow.

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

#### **5. Alternative Delivery Models, CIPFA, October 2016**

Alternative service delivery models of various shapes and sizes are increasingly being used to deliver a growing number and range of public services in many locations in the UK.

An alternative delivery model can be a different way of managing, collaborating and contracting, or it can involve the establishment of a completely new organisation that could be wholly, or partly owned by the parent body or a completely independent enterprise.

They range from small community-based initiatives, employee led spin outs (large and small), local authority companies, to substantial multi-stakeholder partnerships involving private and public sector organisations.

At their best, these new models can provide greater flexibility and dynamism, while maintaining continued commitment to public service and wellbeing. This combination of innovation in public enterprise and public/social purpose can make them effective vehicles for improving service outcomes.

<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-alternative-delivery-models-online>

#### **6. 2017/18 work programme and scale of fees, Public Sector Audit Appointments Ltd, October 2016**

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017/18, with the associated scale fees.

There are no changes to the overall work programme for 2017/18. PSAA therefore proposes that scale fees are set at the same level as the fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13. The consultation ends on 12<sup>th</sup> January 2017.

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

#### **7. Outline procurement strategy, Public Sector Audit Appointments Ltd, November 2016**

As previously reported to the Audit Committee, from 2018/19 onwards, local authorities will be required to appoint their own auditor. A collective procurement option is available via PSAA who published their outline procurement strategy recently.

<http://www.psa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>



## **8. Oversight of audit quality: annual regulatory and compliance report 2015/16, Public Sector Audit Appointments Ltd**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of their monitoring provide audited bodies and other stakeholders with assurance that auditors within their regime are delivering high-quality audits.

The audit quality and regulatory compliance monitoring for 2015/16 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 quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) 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 the inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of PSAA's 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 our regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2014/15 work.

As in previous years, we are pleased with the positive findings in respect of Mazars, which is one of only two firms to have been rated 'green' overall in each of the last three years.

Areas for improvement, common to all firms, detailed in the report include:

- a need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;
- a need for some improvement in the sufficiency and appropriateness of audit procedures being performed on revenue recognition;
- a need to report more thoroughly to audit committees;
- clearly justify and document materiality considerations and not default automatically to the top of the materiality range;
- evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing;
- better evidence work on asset valuations and ensure actuarial assumptions are appropriately challenged;
- ensure that VFM work covers financial resilience over an appropriate period and that the outcomes from VFM work are reporting in sufficient detail to those charged with governance.

We are already actively considering the recommendations made to further strengthen our audit approach for 2016/17.

**2016 Comparative performance for audit quality and regulatory compliance**

<b>BDO</b> Green	<b>Deloitte</b> Green	<b>EY</b> Green	<b>GT</b> Amber	<b>KPMG</b> Amber	<b>Mazars</b> Green	<b>PwC</b> Amber
---------------------	--------------------------	--------------------	--------------------	----------------------	------------------------	---------------------

**2015 Comparative performance for audit quality and regulatory compliance**

<b>BDO</b> Amber	<b>Deloitte</b> Amber	<b>EY</b> Green	<b>GT</b> Amber	<b>KPMG</b> Amber	<b>Mazars</b> Green	<b>PwC</b> Amber
---------------------	--------------------------	--------------------	--------------------	----------------------	------------------------	---------------------

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

**9. Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd**

The quarter 1 2016/17 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/>

# 04 Contact details

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

[www.mazars.co.uk](http://www.mazars.co.uk)

Gareth Davies  
Partner  
07979 164 467

[gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk)

Diane Harold  
Senior Manager  
07971 513 174

[diane.harold@mazars.co.uk](mailto:diane.harold@mazars.co.uk)

**Address:**

Rivergreen Centre,  
Aykley Heads,  
Durham,  
DH1 5TS  
0191 383 3000

