



North East Combined Authority, Governance Committee

Friday 11th December, 2015 at 2.00 pm

Meeting to be held: Gateshead Council, Civic Centre, Regent Terrace, Gateshead, Tyne and Wear NE8 1HH

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA (2)

	Page No
8. External Audit Progress Update	1 - 14
The wrong Appendix 1 was attached to this item in the Agenda Pack. Please find attached a complete copy of the report and correct Appendix 1.	

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail:
christine.patterson@newcastle.gov.uk

To: All Members

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North East Combined Authority

Governance Committee

Date: 11 December 2015
Subject: External Audit Update 2015/16
Report of: External Auditor – Mazars LLP

Executive Summary

This report presents an update from the new External Auditors to the Authority, Mazars LLP.

Recommendations

It is recommended that the Committee receive the report for information.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 Following a national tendering exercise, Mazars LLP have been appointed as the external auditors to the North East Combined Authority. The report attached at Appendix 1 provides a full update on their work so far in 2015/16 and planned work for the remainder of the year.

2 Proposals

- 2.1 The update report is attached as Appendix 1.

3 Next Steps

- 3.1 Regular updates on progress with the 2015/16 audit will be brought to future meetings of this committee.

4 Potential Impact on Objectives

- 4.1 There is no direct impact on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

5 Finance and Other Resources

- 5.1 The audit fee for 2015/16 has been set at £24,298 + VAT, a 25% reduction on the previous year's audit fee. This has been built into the 2015/16 budget.

6 Legal

- 6.1 There are no legal implications directly arising from this report. The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts and receive updates from its external auditors.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no consultation or community engagement considerations directly arising from this report.

North East Combined Authority

Governance Committee

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report

7.4 Risk Management

There are no risk management implications directly arising from this report.

7.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 None.

9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 Appendix 1 – Audit Progress Report December 2016

11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant NECA,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

Jim Dafter, Senior Manager, Mazars, jim.dafter@mazars.co.uk,
0191 433 3662

12 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

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North East Combined Authority

Audit Progress Report

December 2015

Contents

- 01 Introduction 2
- 02 2015/16 audit progress 3
- 03 Audit fees 2015/16..... 4
- 04 National publications and other updates 5
- 05 Contact details 9

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or employees of the North East Combined Authority are prepared for the sole use of the Authority. We take no responsibility to any Member or employee in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Introduction

The purpose of this report is to update the Governance Committee of the North East Combined Authority (the Authority) 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 contact 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 2015/16 audit progress

2015/16 audit

This is our first Audit Progress Report since we took over as your external auditors. We have already met with key officers in order to begin developing our understanding of the North East Combined Authority (the Authority).

In the coming quarter we will:

- liaise with your previous external auditors (Deloitte) to ensure an efficient handover process;
- carry out our initial planning in respect of 2015/16 including documenting 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; and
- ensure on-going liaison with senior officers and consideration of key agendas and papers.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Governance Committee on 1 April 2016.

03 Audit fees 2015/16

The Department for Communities and Local Government (DCLG) asked the Audit Commission to set fees for 2015/16 before the Commission's closure on 31 March 2015.

The Commission has reduced scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15 with no changes to the overall work programme. The fee reduction will apply to all principal bodies, with the exception of 15 local government bodies whose scale audit fees are already below £20,000, and of the fees for pension fund audits at local authorities.

The Commission published the final work programme and scales of fees for 2015/16 on 23 March 2015.

The table below outlines our proposed fees for completion of our Code audit work.

Area of work	Proposed fee 2015/16
Code audit	£24,298 plus VAT

At this stage we are not proposing to carry out any additional services for the Authority.

The scale fee assumes that you are able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Outline of work programme

For 2015/16 we are required to meet the requirements of the National Audit Office's Code of Audit Practice and the Local Audit and Accountability Act 2014. The programme of work we are required to carry out in respect of the new Code remains largely unchanged.

Our proposed fee for Code audit work includes:

- the audit of your financial statements; and
- our work to conclude on your arrangements to secure value for money in your use of resources.

In addition, we will address any legal challenge work prompted by local electors at the rate prescribed by Public Sector Audit Appointments Ltd.

04 National publications and other updates

This section contains updates on the following:

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**
2. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
3. **Whistleblowing e-learning for the public sector**
4. **Consultation on regulation of auditors, Financial Reporting Council, May 2015**
5. **English Local Authority Reserves, CIPFA Briefing, June 2015**
6. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Ltd**
7. **Consultation on 2016/17 work programme and scales of fees, Public Sector Audit Appointments Ltd, October 2015**
8. **Extension of current local government contracts, October 2015**

1. Annual Regulatory Compliance and Quality Report, PSAA, June 2015

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

There are two strands to their monitoring:

- audit quality – applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance – reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment.

The audit quality and regulatory compliance monitoring for 2014/15 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) conclusions and Whole of Government Accounts (WGA);
- an assessment as to whether they 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 report on the results of its inspection of firm audits in the private sector;
- the results of inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 17 key indicators relating to Terms of Appointment requirements;
- a review of each firms' systems to ensure they comply with regulatory requirements; and
- a review of each firm's client satisfaction surveys for 2013/14 work.

The report summarising the results of our monitoring work for Mazars LLP is available on the PSAA website. <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** (the highest available).

2015 Comparative performance for audit quality and regulatory compliance

BDO	Deloitte	EY	GT	KPMG	Mazars	PwC
Amber	Amber	Green	Amber	Amber	Green	Amber

The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2014/15 indicators scored as green. Only one of the other six suppliers scored a green rating.

The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

2. Regulatory Compliance and Quality Report, Quarter 1 2015-16

This report summarises the performance of Mazars LLP against key quarterly performance indicators and is available on the PSAA website <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

3. Whistleblowing e-learning for the public sector

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify 'grey areas' around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing;
- the arrangements you have in place;
- how best to blow the whistle/raise concerns;
- where staff can blow the whistle/raise concerns;
- what staff can expect and how their organisation will support them;
- rights and options for support;
- why whistleblowing is so important.

4. Consultation on regulation of auditors, Financial Reporting Council, May 2015

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014 ie:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.

<https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx>

The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

5. English Local Authority Reserves, CIPFA Briefing, June 2015

Given continuing pressure on resources CIPFA surveyed local authorities earlier this year about the level and purpose of their reserves. The briefing paper explains the importance of holding an adequate level of reserves but does not make recommendations or seek to define a minimum level of balances. The report noted that:

- 94% of authorities have plans to use reserves;
- in 2014/15 earmarked reserves were reduced by 7% and in 2015/16 the reduction is budgeted to increase to 17%; and
- unallocated reserves are forecast to reduce by 9% in 2015/16.

6. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Ltd

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 2015/16.

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

7. Consultation on 2016/17 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 2016/17 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/17. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/16 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 2014/15 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 2016/17 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.

8. Extension of current local government contracts, October 2015

The Department for Communities and Local Government recently announced that the external audit contracts for local authorities (except parishes in the limited assurance regime) will be extended for one year to include the 2017/18 audit. The legislation requires the Authority to have appointed the auditor for the 2018/19 audit by 31 December 2017. The Chartered Institute of Public Finance and Accountancy is preparing guidance for local authorities to support them in this process.

05 Contact details

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

www.mazars.co.uk

Cameron Waddell
Partner
0191 3836314

cameron.waddell@mazars.co.uk

Jim Dafter
Senior Manager
0191 433 3662

jim.dafter@mazars.co.uk