

Audit Progress Report

Gateshead Council



January 2018



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Audit progress

Purpose of this report

The purpose of this paper is to provide the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to Members of the Audit and Standards Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

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.

2016/17 audit

In our September 2017 Audit Progress Report we confirmed that the main audit had been completed, however, we were unable to issue our certificate concluding the audit as we had received an objection, made by a member of the public, in relation to the Lender Option Borrower Option (LOBO) loans held by the Council.

As a result of our work we concluded that the objection did not provide us with sufficient reason to consider that the LOBO loans shown in the Council's 2016/17 financial statements could be considered to be unlawful.

We were able to issue of certificate to close the 2016/17 audit on 11 December 2017.

Certification of claims and returns

Work on the 2016/17 Housing Benefits Subsidy Claim is complete, and 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), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2016/17 the only claim or return within this regime was the Housing benefit subsidy return.

Housing benefits subsidy return 2016/17

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 audited 2016/17 Housing benefit subsidy return was amended but not qualified before being submitted on 28 November 2017 as set out in the following table.

Claim or return	Value of claim	Amended	Qualified
Housing benefit subsidy return 2016/17	£83.613m	<p>Yes.</p> <p>Two amendments were identified relating to minor errors arising from manual adjustments; officers intend to modify procedures to minimise the use of these in future.</p> <p>An additional error was caused by a minor software issue which will be raised with the software supplier at the next opportunity.</p> <p>The overall effect of these changes was to increase subsidy claimed by the Council by £38.</p>	No.

We welcome the assistance provided by officers with this work, which enables us to complete our certification work as efficiently and effectively as possible.

Fees

PSAA set an indicative fee for our work on the Council's Housing benefit subsidy return. We confirm that the final fee payable for this work as outlined in the following table below is in line with the indicative fee. The following fee was charged for the 2016/17 work.

Claim or return	2016/17 indicative fee	2016/17 final fee	2015/16 final fee
Housing benefit subsidy return 2016/17	£12,405	£12,405	£10,615

Clarification of certification fees for the 2017/18 Audit

In April 2017 we wrote to the Council setting out the proposed scale fees for 2017/18 as published by PSAA. At that date, PSAA had not yet published indicative fees for the housing benefit certification work for 2017/18. PSAA have subsequently clarified the scale fee for 2017/18 as £10,615 + VAT, a return to the fee level set for 2015/16.

Non-code work

With regard to other non-Code work, we were commissioned by the Council to carry out work in relation to the following:

- Skills Funding Agency grant claim which was audited in May 2017 (fee of £3,550 + VAT);
- Pooling of Housing Capital Receipts return which was audited in November 2017 (fee of £1,800 + VAT); and
- Teachers' Pensions Return - The fee for this was £3,750 + VAT, an increase on the previous year as additional testing is now required by the Teachers Pensions Agency. This work was completed in November 2017.

Again, we appreciate the assistance provided by officers in enabling us to carry out our work efficiently and effectively.

2017/18 Audit

Our planning work in relation to the 2017/18 audit is now underway and includes the areas outlined below

- **Audit Strategy Memorandum:** we will meet with officers ahead of drafting our 2017/18 Audit Strategy Memorandum for inclusion on the agenda of the Audit and Standards Committee to be held on 5 March 2018, 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.
- **Review of previous year:** we will discuss the previous year's audit and consider any areas for improvement. We will in particular consider how best to carry out early testing to mitigate the impact on the year-end.
- **Walkthroughs and interim visits:** we are in the process of carrying out walkthroughs of the key financial systems as well as early interim testing (to reduce the impact on the year-end); as in previous years we aim to do this in one mutually agreed visit to minimise the impact on officers.
- **Run our annual accounts workshops:** Officers will attend our annual accounts workshop which will be held on 5 February 2017.
- **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 are also in the process of sending out the client satisfaction surveys (annual requirement by our Regulator); we would be grateful for feedback to enable us to continue to develop our approach and how best we can work with you to achieve mutual aims

North East Governance Workshops

We have decided to restructure our North East Governance Forum which has run successfully for the last couple of years. Rather than have two events a year and consider agenda items at the time of each meeting, we are going to run events when there are important topics to discuss.

Our first event under these new arrangements will be in early 2018 and will be on the new General Data Protection Regulations (GDPR). We will be sending out invitations for this event in due course.

National publications and other updates

National publications and other updates	
1.	A short guide to Local Authorities, National Audit Office, October 2017
2.	Update on Auditor Appointments from 2018/19, Public Sector Audit Appointments, October 2017
3.	Care Quality Commission regulating health and social care, National Audit Office, October 2017
4.	PSAA is consulting on the fee scale for 2018/19 audits of opted-in bodies, December 2017

1. A short guide to Local Authorities, National Audit Office, October 2017

The NAO is publishing a suite of short guides for the new Parliament, one for each government department and a selection of cross-government issues. The guide gives an overview of how local government is funded, the pressures local authorities face, staffing, major recent developments and what to look out for in the main local authority services.

For example, the guide highlights 39% of the 2015/16 local authorities budgeted non-schools expenditure (£16.8 billion) was allocated to adult social care. The guide also highlights key challenges to accountability in local government.

<https://www.nao.org.uk/report/short-guide-to-local-authorities/>

2. Update on Auditor Appointments from 2018/19, Public Sector Audit Appointments, October 2017

The consultation on the proposed auditor appointments from 2018/19 closed on 22 September. PSAA received 442 responses from opted-in bodies confirming acceptance of the proposed appointment. A response was not received from 34 bodies and PSAA has written to those bodies to say that they have assumed they accept the firm proposed. PSAA received 7 representations to proposed appointments for reasons of joint working relevant to the auditor's responsibilities, independence issues with the proposed auditor, or concerns about service from the proposed firm. In these cases, PSAA are now consulting on alternative proposed appointments where appropriate.

<https://www.psaa.co.uk/2017/10/news-release-update-on-auditor-appointments-from-201819/>

PSAA Ltd have now confirmed that Mazars have been appointed as the Council's external auditor from 2018/19.

3. Care Quality Commission regulating health and social care, National Audit Office, October 2017

The Care Quality Commission has improved as an organisation, but now needs to overcome some persistent issues with the timeliness of some of its regulation activities if it is to sustain further improvement, the National Audit Office (NAO) has found.

The report found that the Commission has completed its inspection and rating programme comprising more than 28,000 provider locations, which provides a benchmark of the quality of health and social care services. It has significantly reduced staff vacancies and is increasing its focus on cost savings. In addition, the Commission has improved how it measures its performance, and takes action to correct poor performance.

Inspection staff, however, highlighted concerns to the NAO about how well the broader information systems currently supported them. The NAO also found that Commission does not meet its timeliness targets for some of its regulation activities, such as registration and publication of inspection reports.

According to the NAO, although most providers and inspectors think that the Commission's judgements are fair, stakeholders have concerns about consistency. The Commission is seeking to address consistency issues through its quality assurance processes and training.

The Commission is taking more enforcement action when care falls below fundamental standards, and there is evidence that it influences providers to improve quality, with most of the providers rated either inadequate or requires improvement having improved their rating on re-inspection. The number of completed enforcement actions increased over 2015/16 and 2016/17, while the number of providers entering special measures remained steady. The Commission links the increase with a focus on improving its inspectors' skills and knowledge about enforcement. Poor recording, however, means the Commission cannot be assured that enforcement action is always completed.

The Commission made progress in implementing its new strategy during 2016/17 although it missed early milestones on rolling out use of resources assessments and designing its approach to the next phase of inspection.

<https://www.nao.org.uk/report/care-quality-commission-regulating-health-and-social-care/>

4. PSAA is consulting on the fee scale for 2018/19 audits of opted-in bodies, December 2017

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 Gateshead Council for the 2018/19 audit is £100,329 (compared to £130,298 for the 2017/18 audit).

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

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

Email: cameron.waddell@mazars.co.uk

Phone: 0191 383 6314

Jim Dafter

Senior Manager

Email: jim.dafter@mazars.co.uk

Phone: 07815 876 042

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

www.mazars.co.uk