

City of York Council

Audit Progress report

July 2013

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## 1. Introduction

The purpose of this paper is to update the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. We have also included emerging issues and developments which may be of interest to the Committee and, where relevant, recommendations that you may wish to consider.

If you need any additional information please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address ([www.mazars.co.uk](http://www.mazars.co.uk)) which sets out the range of work Mazars carries out across the UK public sector. It also details the full extent of services Mazars provides within the UK and abroad.

## 2. Fraud and Corruption assessments

Under the terms and conditions of our contract with the Audit Commission, we are required to:

- Advise them of any identified frauds over £10,000
- Assess the Council's progress to date in following up data matches highlighted by the National Fraud Initiative (NFI)
- Review the Council's response to the Audit Commission's annual Fraud and Corruption survey.

We have now completed this work. Our findings and assessments are summarised below.

<b>AC requirement</b>	<b>Finding summary</b>	<b>Assessment</b>
Report any proven frauds identified with an individual value in excess of £10,000.	8 HB/CTB cases identified in 2012/13 with an individual value in excess of £10,000. Overpayments deducted from ongoing benefit, and legal action taken in line with Council prosecution policy.	Levels of identified fraud do not represent a significant risk for the purposes of external audit.
Assess the Council’s progress to date in following up data matches highlighted by the National Fraud Initiative (NFI).	Follow up work is undertaken by Internal Audit counterfraud specialists , an initial sift has been carried out to prioritise data and work is well in hand to review high priority cases	“Green” assessment for Audit Commission annual report.
Review the Council’s response to the Audit Commission’s annual Fraud and Corruption survey.	The Council’s response confirms that all of the expected counterfraud arrangements are in place and that Internal Audit carry out a comprehensive work programme in this area. No significant frauds have been identified in 2012/13 apart from housing benefit, council tax benefit and tenancy fraud.	This self assessment is consistent with our own knowledge of the Council.

### 3. Audit Quality

The Financial Reporting Council (FRC) recently published its 2012/13 annual report on the outcome of its audit quality inspections. The report includes an overall assessment of audit quality together with a number of key messages for audit committees and audit firms. In summary:

- There has been an improvement in the overall standard of audit work.
- The improvement is not even across firms and types of entities.
- Firms need to maintain their focus on professional scepticism and the effectiveness of their independence and ethical policies and procedures.

For 2012/13, Mazars LLP was not subject to the FRC’s inspections having been reviewed in 2011/12. The report can be found at

<http://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2012.aspx>

However, there are some specific aspects of the FRC’s report that we feel the Audit Committee should consider and note Mazars’ audit approach.

<b>FRC issue/recommendation</b>	<b>Audit Committee consideration</b>	<b>Mazars approach</b>
<p><b>Focus on audit quality</b> - firms should have appropriate controls and procedures to ensure that audit efficiencies are not achieved at the expense of audit quality.</p>	<p>Where significant fee reductions have been proposed or agreed, carefully consider whether the overall level of work to be performed is likely to be sufficient to identify material misstatements and ensure that audit quality is not compromised.</p>	<p>Our audit approach complies with auditing standards and delivers efficiencies through the use of experienced staff, IT audit techniques, effective communication with management and finance staff and focusing on the risks of material misstatement.</p>

<p><b>Professional scepticism</b> - firms should ensure further improvements and greater consistency in exercising sufficient professional scepticism.</p>	<p>Support and encourage a sceptical approach in the audit of areas of key judgement and ensure that auditors have access to all relevant information.</p>	<p>We have reported in our Audit Strategy Memorandum the areas of key judgements we have applied appropriate challenge to management, notably material accounting estimates.</p>
<p><b>Auditor independence and ethical issues</b> - firms should review the adequacy of their independence and ethical procedures and the training that they provide to staff at all levels.</p>	<p>Seek additional independence information where appropriate and challenge firms to demonstrate their independence, both in substance and form.</p>	<p>All staff must annually make an independence declaration and attend training on independence and ethics. We share promptly with management and the Audit Committee any perceived or actual threats to our independence and put in place safeguards where appropriate. We report these formally and openly in our Audit Strategy Memorandum and Audit Closure Memorandum.</p>
<p><b>Audit quality monitoring</b> – firms should reconsider the robustness of their monitoring processes and the extent to which they contribute to an improvement in overall audit quality.</p>	<p>Ask the firm whether their audit has been reviewed by the firm’s internal monitoring processes and, if so, what the main lessons learnt were; how the findings compare with the FRC’s inspection findings and what actions the firm has taken to address the issues identified.</p>	<p>2012/13 was the first year of the firm’s appointment as your auditor. As a Director new to the firm I am subject to a full internal quality monitoring review of 2 of my 10 engagements plus additional reviews of my audit work as it progresses. I will share with you the lessons learned as they arise.</p>

## Contact details

If you would like further information on any items in this briefing, please contact me or the Senior Manager.

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