

Northumbria Police Joint
Independent Audit Committee

Audit Progress report

25 November 2013 meeting

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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 officers are prepared for the sole use of the Police and Crime Commissioner and Chief Constable and we take no responsibility to any member or officer 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.

1. Introduction

The purpose of this paper is to update the Joint Independent Audit Committee on our progress in meeting our responsibilities as the external auditor for both the Police and Crime Commissioner and the Chief Constable for Northumbria. We also include in this paper key emerging national issues and developments which may be of interest to the Committee.

If you need any additional information please contact Gareth Davies or Caroline Tyrrell using the contact details at the end of this update. Gareth has taken over as the Engagement Lead for both audits following Steve Nicklin's retirement at the end of October 2013.

2. Summary of audit progress

We presented our audit completion reports, summarising the results of our 2012/13 audits, at a meeting with the Police and Crime Commissioner and the Chief Constable on 17 September 2013.

On 23 September we gave an unqualified opinion and value for money conclusion for the Chief Constable of Northumbria Police. On 30 September we gave an unqualified opinion and value for money conclusion for the Police and Crime Commissioner, as well as our assurance statement on the whole of government accounts. These were all within the relevant deadlines.

Our reports included certificates closing the 2012/13 audits.

Annual Audit Letters for both organisations have now been agreed with the Police and Crime Commissioner and the Chief Constable. These have been copied to the Audit Commission, and will be published on its website in due course.

We have met with members of the finance team to discuss the 2012/13 audit process and consider what worked well and where improvements might be made for 2013/14.

We have also begun planning our 2013/14 audit, and expect to issue our Audit Strategy Memorandum in February 2014.

We issued our fee letters on 8 April, confirming that fees are at the Audit Commission scale fee. There is a 10% reduction in the fee for the PCC audit, reflecting the removal of the one-off additional element included by the Audit Commission in 2012/13 to cover the audit work required in the first year.

Audit area	Proposed 2013/14 fee £	Actual 2012/13 fee £
Audit of the Police and Crime Commissioner and Group financial statements	49,400	55,000
Audit of the Chief Constable's financial statements	25,000	25,000

3. National publications, events and other updates

The Future of Public Audit

The Local Audit and Accountability Bill is before Parliament, setting out future local public audit arrangements. The Bill

- confirms abolition of the Audit Commission in 2015 and set out transitional arrangements;
- identifies those bodies which will take on some functions of the Commission, for example the National Audit Office will be responsible for the Code of Audit Practice;
- requires audited bodies to appoint their external auditor, taking advice from an independent auditor panel; and
- sets out eligibility criteria for auditors and new audit regulation arrangements.

<http://services.parliament.uk/bills/2013-14/localauditandaccountability/documents.html>

Audit Committees in the Private Sector

The Financial Reporting Council (FRC) has published guidance on the role of audit committees in the private sector. Members might find this of interest.

<http://frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Audit-Committees-September-2012.aspx>

Financial reporting Council's Audit Quality Inspections Annual report 2012/13

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 may wish to consider:

FRC issue/recommendation	Audit Committee consideration	Mazars approach
<p>Focus on audit quality 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. The 2013/14 fee reduction for the PCC audit is in line with the Audit Commission’s fee scale and reflects the reduction in audit work required compared to 2012/13.</p>
<p>Professional scepticism 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</p>	<p>We reported in our 2012/13 Audit Strategy Memorandum the areas of key judgements on which we challenged management, notably material accounting estimates. We</p>

	have access to all relevant information.	will do the same for 2013/14.
<p>Auditor independence and ethical issues Firms should review the adequacy of their independence and ethical procedures and the training that they provide to staff at all levels.</p>	Seek additional independence information where appropriate and challenge firms to demonstrate their independence, both in substance and form.	All Mazars 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 Completion Report.
<p>Audit quality monitoring Firms should reconsider the robustness of their monitoring processes and the extent to which they contribute to an improvement in overall audit quality.</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.	Our 2012/13 audit of the Police and Crime Commissioner is currently being reviewed as part of our internal monitoring processes. Early feedback suggests there are no significant issues. We will report the outcome of this internal review to the Audit Committee.

Code of Practice on Local Authority Accounting in the UK: Disclosure checklist

CIPFA published the key guidance for the preparation of the 2013-14 accounts in May 2013. This checklist applies to police bodies, and can be used to self-assess compliance with this guidance during the closure process and we will use it as part of our audit of the 2013/14 accounts.

Audit Commission consultation on 2014/15 scale fees and work programme

The Audit Commission is consulting on its 2014/15 proposed work programme and scales of fees. It does not plan to make any changes to the work programme for 2014/15. It is therefore proposing that scale audit fees are set at the same level as the fees applicable for 2013/14. It will publish the final work programme and scales of fees for 2014/15 in March 2014.

Accounting and Auditing Standards: a Public Services Perspective

CIPFA has updated a 2003 guide to reflect the subsequent adoption of international standards for accounting (IFRS) and auditing (ISAs). These standards are already embedded in the accounts you produce and our audit approach. However, the guide is a useful summary of how these standards apply to local authorities, fire and police bodies. It includes descriptions of the:

- key differences between private sector and local authority financial reporting;
- wider responsibilities of public service auditors; and
- role of the various standard setting bodies.

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