

# External Audit Progress Report and Briefing

March 2012

Tonbridge & Malling BC

Audit 2011/12

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Introduction

The purpose of this paper is to update the Audit Committee with progress in delivering our responsibilities as your external auditors.

The paper also provides information on recent Audit Commission publications and emerging national issues, and includes questions linked to these which the Committee may wish to consider.

If you require more information on any of the issues included in this briefing then please do not hesitate to contact either the Audit Manager, Trevor Greenlee or myself.

Andy Mack

District Auditor

27 March 2012

# Progress Report

## Our responsibilities

1 Our audit is designed to meet the requirements of the Audit Commission's Code of Audit Practice. Under the Code we are required to:

- give our opinion on whether the Council's financial statements give a true and fair view of its financial position and of the income and expenditure for the year; and
- issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

2 We are also required to:

- review whether the Annual Governance Statement is presented in accordance with relevant requirements; and
- audit the whole of government accounts consolidation pack based on the information provided in the financial statements.

## VFM conclusion

3 Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

4 Further information on our initial risk assessment and planned work is included in our audit plan which is included as a separate item on today's agenda.

## Certification of claims and returns

5 In 2011/12 we also anticipate being required to certify the following grant claims and returns:

- Housing and Council Tax Benefits Subsidy Claim; and
- National Non-Domestic Rates Return.

6 Each return has a separate deadline for certification. We will liaise with the Council to ensure work is completed to meet the specified deadline.

## Progress against the 2011/12 audit plan

7 The table at Appendix 1 summarises the progress to date in completing our planned audit work for 2011/12.

# Government response to consultation on the future of local public audit

**8** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**9** The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**10** Thereafter the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**11** The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

**12** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

# Update on the externalisation of the Audit Practice

**13** The Audit Commission’s Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

**14** The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board will confirm the ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission will then write to all audited bodies on or shortly after 23 April 2012 to set out its proposals for ‘permanent’ auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.



- To support the consultation process, the Commission is arranging introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits. The event covering London (South), Surrey and Kent will be on 3 May 2012.

**15** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**16** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**17** Further details are available on the Commission's website. We will continue to keep you updated on developments.

**18** Against this background, the Audit Practice's focus remains on:

- fulfilling our responsibilities by delivering your 2011/12 audit to a high standard; and
- managing a smooth transition from the Audit Practice to your new audit provider.

## Other matters of interest

**19** This section highlights emerging issues which may be of interest to the Audit Committee.

### Annual fraud and corruption survey 2011/12

**20** On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

**21** The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

### National Fraud Initiative consultation

**22** The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

**23** The NFI takes place biannually and has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

**24** The work programme will remain unchanged from NFI 2010/11. In recognition of the financial pressures on public bodies the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. The final work programme and scales of fees will be published in May 2012.

### Local government capital finance system

**25** In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

**26** A summary of the consultation responses was published on 8 February 2012 and the regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

**27** DCLG's commentary confirms the intended effects of the amended regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

## Openness and accountability in local pay

**28** On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

**29** For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees. The statement must be:

- approved by full Council and
- published on its website.

## CIPFA's Prudential Code for Capital Finance

**30** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**31** The code also includes guidance on the treasury management implications of the housing self-financing reforms.

**32** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**33** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**34** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**35** The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

## Audit Commission publications

**36** This section gives details of recent Audit Commission publications which may be of interest to the Audit Committee. Copies of these reports and other material can be found on the Audit Commission website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

### **Let's be clear: Making local authority IFRS accounts more accessible and understandable (January 2012)**

**37** This briefing focuses on a long-running debate that the implementation of International Financial Reporting Standards has revived: how to make local government accounts easier to understand.

**38** While the statutory accounts give comprehensive information on a local authority's financial position and performance and reflect the range of activities which they cover, they are a poor way of communicating information to lay readers. Elected members and local people need accessible and clear information on financial performance, without needing to be accountants.

**39** The briefing identifies possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

### **Value for money profiles tool (updated February 2012)**

**40** The Audit Commission's Value for Money (VFM) profiles bring together data about costs, performance and activity for local councils and fire authorities.

**41** The [VFM profiles tool](#) has now been updated with 2010/11 data. The tool was designed for auditors, but councils and fire and rescue authorities can use it to examine what they are spending, and compare expenditure and performance with other similar organisations.

**42** Using the profiles you can see;

- how an organisation is spending its resources, and how well services perform;
- how the costs and performance of an organisation compare to others;
- the latest planned budgets for councils; and
- outlier reporting.

## Key considerations

- 43 The Audit Committee may wish to consider the following questions;
- Has the Council arranged to complete the Audit Commission's annual fraud and corruption survey?
  - Has the Council considered the implications of the amendments to the capital financing regulations?
  - Has the Council considered the updated version of the Audit Commission's VFM profiles?

## Contact details

**44** If you would like further information on any of the items in this briefing please contact either your District Auditor or Audit Manager.

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# Appendix 1 Progress against the 2011/12 audit plan

The table below sets out the work programme for the 2011/12 year with progress to date.

Table 1:

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
<b>Audit planning</b>		
2011/12 Audit fee letter		Issued April 2011
<b>Opinion</b>		
Financial systems	<p>We are required to obtain assurance that the information from the material systems used to prepare the Council's accounts is complete and accurate.</p> <p>Each year we evaluate the key controls within these systems which prevent or detect material misstatement. We perform detailed testing on the operation of these controls on a cyclical basis. Where possible we place reliance on the work of internal Audit Commission.</p> <p>Our work to review material systems is now in progress. Our work will be completed in April 2012 to allow testing covering the whole of the financial year, but before commencing our work on the financial statements.</p>	<p>Any significant weaknesses in internal control will be discussed with officers and reported in our Annual Governance Report.</p>
Review of the 2010/11 financial statements	<p>We have continued to liaise with officers on issues relating to the preparation of the 2011/12 accounts.</p> <p>In early 2012 the Audit Commission ran a regional final accounts workshop for local government finance staff involved in</p>	<p>Audit Opinion: September 2012</p> <p>Annual Governance Report:</p>

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
	<p>preparing financial statements. The Council's Principal Accountant attended this workshop.</p> <p>Our detailed work to review the 2011/12 financial statements will begin in June 2012.</p> <p>Further information on the work required to support our opinion on the financial statements is included in our 2011/12 audit plan, which is included as a separate item on today's agenda.</p>	September 2012
Whole of Government Accounts	<p>We are required to audit the whole of government accounts consolidation pack.</p> <p>Our work will be performed following completion of the audit of the Council's financial statements.</p>	Audit report September 2012
<b>Value for Money Conclusion</b>		
	<p>In 2011/12 auditors will again give their statutory Value for Money (VFM) conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria specified by the Commission, relating to a Council's arrangements for:</p> <ul style="list-style-type: none"> <li>■ securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position; and</li> <li>■ challenging how it secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.</li> </ul> <p>Further information on our initial risk assessment and planned work is included in our 2011/12 audit plan, which is included as a separate item on today's agenda.</p>	VFM Conclusion: September 2012
Certification of claims and	In 2011/12 we will be required to certify	



Area of work/risk identified in Audit Plan	Progress to date	Planned Output
returns	<p>the following grant claims and returns;</p> <ul style="list-style-type: none"> <li>■ Housing and council tax benefit subsidy claim; and</li> <li>■ National Non-Domestic Rates Return</li> </ul>	<p>Certificate due November 2012</p> <p>Certificate due September 2012</p>
<b>Annual Audit Letter</b>		
	<p>The Annual Audit Letter is a publicly-available document which summarises our findings under the Code of Audit Practice.</p>	<p>Annual Audit Letter October 2012</p>

