

# **Audit and Governance Committee update**

**Herefordshire Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Progress report .....</b>	<b>3</b>
Financial statements.....	3
VFM conclusion .....	3
Other issues.....	4
<b>Government response to consultation on the future of local public audit...5</b>	
<b>Update on the externalisation of the Audit Practice.....6</b>	
<b>Other matters of interest .....</b>	<b>8</b>
Annual fraud and corruption survey 2011/12.....	8
National Fraud Initiative consultation.....	8
Openness and accountability in local pay.....	9
<b>Contact details .....</b>	<b>10</b>

# Introduction

**1** The purpose of this paper is to provide the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

**2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit and Governance Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

**3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

**4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Elizabeth Cave

District Auditor

May 2012

# Progress report

## Financial statements

5 My audit plan is to be presented to the July Audit and Governance Committee. The key risks identified are:

- The first time reliance on a service organisation (HOOPLE) for the initiation, processing, recording and reporting of financial transactions;
- Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities)
- The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011-12 ;
- Whole of government accounts;
- Transfer of schools to academy status ;and
- The need to identify heritage assets and identify their cost or value to account for them correctly.

6 My team has completed their interim visit. This involved updating our assessment of the Council's control environment and also reviewing the controls operating around the Council's key financial systems. We also reviewed Internal Audit as part of that work. We have also brought forward as much of the work typically carried out by auditors after the financial statements have arrived as possible. We are grateful for the very good co-operation we received from Officers during the visit,

7 Dates were agreed with Officers in January for the key stages of the final accounts visit. We have also provided officers with a copy of our suggested working paper requirements. Officers attended a training session we ran to brief them on the key technical accounting issues for this year.

## VFM conclusion

8 I concluded my risk assessment and this has confirmed the areas to be considered as part of this work. The risks are.

- The impact of a significant reduction in government grants on the medium term financial plan;
- That the Council cannot demonstrate that any change to the current waste disposal arrangements to provide a waste to energy plant in Hartlebury delivers value for money; and

- That continued overspending in Adult Social Care will make it increasingly difficult to balance the Council's financial position.
- 9 This work is substantially complete and we will present the results to the September Committee.

## Other issues

10 The Audit Commission carries out a programme of independent quality monitoring of all its audits. At least every three years, each District Auditor has one of her audits selected for a detailed review by auditors from either another region or firm. This is then scored on a scale of 1-4. I am pleased to report that the 2010/11 Herefordshire Council audit was assessed as achieving the very highest rating of 4.

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

**11** 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.

**12** 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.

**13** 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.

**14** 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.

**15** 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

**16** 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.

**17** 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 published the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission wrote to all audited bodies on 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 arranged a series of 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.

**18** 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.

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

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

**21** Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

## Other matters of interest

### Annual fraud and corruption survey 2011/12

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

**23** The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012. Herefordshire Council completed the survey promptly.

### National Fraud Initiative consultation

**24** The Audit Commission has just finished consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

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

**26** The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Herefordshire Council this is £3,650

**27** The consultation closed on 23 March 2012 and the final work programme and scales of fees was published in May 2012.

### Local government capital finance system

**28** 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.

**29** 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.

**30** 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**

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

**32** 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.

**33** The statement must be approved by full Council and published on its website.

## Contact details

**34** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**35** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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