

Audit **Committee** **update**

Swale Borough 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.

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Introduction

1 The purpose of this paper is to provide the Audit 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 Committee. There have been no national reports issued by the Audit Commission since these detailed in our last report to the Audit Committee on 8 March 2012.

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.

Executive summary

4 We continue to meet with finance staff to discuss progress and our visit to begin our phase one interim work took place in February 2012. There are no significant matters arising from our audit which we need to bring to your attention at the current time, although we note that the Authority has yet to undertake the full IT disaster recovery test which was initially planned for October 2011. I understand that this is now planned for June 2012, and I will review progress at our next audit visit.

Andy Mack

District Auditor

23 May 2012

Progress report

Financial statements

1 We are required to audit the financial statements and to give our opinion on:

- whether they give a true and fair view of the financial position of the Council and of its income and expenditure for the year in question; and
- whether they are prepared properly in accordance with relevant legislation and applicable accounting standards.

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.

3 Appendix 1 sets out the progress made in completing our work.

4 We continue to hold regular meetings with the Finance team to discuss issues arising in relation to the 2011/12 financial statements audit. We have also held discussions with Internal Audit to discuss the progress of their internal audit plans and any emerging issues highlighted from their reviews.

VFM conclusion

5 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.

6 Following completion of our risk assessment the work will focus on:

- The progress made in updating the medium term financial strategy and business planning; and
- We will assess the overall financial standing and progress in delivering its medium term financial strategy.

7 We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.

Certification of claims and returns

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

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

9 Since our last report to this Committee it has been determined that we are not required to audit the Disabled Facilities Grant Claim for 2011/12.

10 Each return has a separate deadline for certification and we will liaise with staff to ensure work is completed to meet the specified deadline.

Government response to consultation on the future of local public audit

11 In my last report I outlined the Government's proposals for a new local public audit regime that will apply when the recently awarded audit contracts end in 2016/17. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- 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 right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

12 The government's intentions to publish draft legislation for pre-legislative scrutiny in Spring 2012 were outlined in the Queen's Speech on 9th May 2012.

Update on the externalisation of the Audit Practice

13 At the March Audit Committee I reported the results of the Audit Commission's tendering exercise for the award of audit contracts from 2012/13. The contract for the Kent, South London & Surrey area was awarded to Grant Thornton for the five year period 2012/13 to 2016/17.

14 The new audit appointment will start on 1 September 2012, and the Commission has extended the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with.

15 The Commission arranged a number of introductory events with the successful firms, and you Chief Executive attended the meeting with Grant Thornton on 3 May.

16 Audit Practice staff in the Kent team will be transferring to Grant Thornton on 31 October 2012, and we have begun a number of meetings to ensure this integration process goes smoothly.

17 Further details are available on the Commission's website. We will continue to keep you updated on developments and will provide a verbal update at the Audit Committee meeting.

18 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

2012/13 Audit fees

19 Following consultation, the work programme and fee scales for 2012/13 have been agreed for audits of local government, fire authorities, police and health bodies. Letters notifying bodies of the new fees were sent out on Wednesday 11 April.

20 Nearly 800 of the larger local public bodies in the Commission's regime will save a total of £250 million over the five years, for most a 40 per cent cut on current rates. We have also introduced composite indicative fees for certification work. Information regarding the fees for small bodies

21 On Thursday 10 May 2012 the Commission published the scales of fees 2012/13 to 2016/17 for the Audit of small bodies subject to limited assurance audit.

Scale fees

22 The combination of outsourcing our in-house Audit Practice and internal efficiency savings means that we are able to pass on significant reductions in audit fees this year to audited bodies. These lower fees are fixed for five years irrespective of inflation, and will help public bodies at a time when budgets are under pressure.

23 For Swale Borough Council, the scale audit fee for 2012/13 will be £80,085, which represents a 40% reduction on the 2011/12 scale fee of £133,475.

Work Programme

24 The [Work Programme and Scales of Fees 2012/13: Local Government - April 2012 document](#) sets out the work we plan to undertake at local government, fire and police audited bodies during 2012/13, with the associated scales of audit fees. The document does not cover probation trusts, which from 2012/13 come within the remit of the National Audit Office.

25 The [Work Programme and Scales of Fees 2012/13: Health - April 2012 document](#) sets out the work we plan to undertake at NHS trusts, primary care trusts and strategic health authorities during 2012/13, with the associated scales of audit fees.

Consultation feedback

26 The [Work Programme and Scales of Fees 2012/13: Consultation Response - Local Government document](#) summarises the replies received from local government and fire audited bodies and stakeholders to our consultation on the work programme and scales of fees for 2012/13, and our response to the main issues raised by respondents.

Small bodies

27 We have been able to pass on significant reductions in audit fees to small bodies. These lower fees are fixed for five years irrespective of inflation, and will help small bodies at a time when budgets are under pressure. The fees apply from 2012/13 to 2016/17.

28 Fees have been reduced by an overall total of 30 per cent for small bodies. We have extended the band exempting bodies from any scale audit fee. This band now includes all small bodies with income or expenditure of up to £10,000 (previously £1,000). Just under 4,500 small bodies (approximately 50 per cent) will not now have to pay a scale audit fee. Based on the fee rates applicable for 2011/12, we have reduced the fees for small bodies with income and expenditure above £10,000. Fees will be fixed for five years from 2012/13 to 2016/17.

29 There is no change to the maximum hourly rates for additional work, which have been fixed at the levels applicable from 2006/07 to 2011/12.

30 We are consulting all smaller relevant bodies in May 2012 on the appointment of their auditor for the audit of the accounts from 2012/13. Appointments will be made according to our established practice of grouping auditor appointments for small bodies by county areas. The new appointments start on 1 September 2012, for the audit of the 2012/13 accounts.

Appendix 1 – Audit progress as at May 2012

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
Audit fee	to April 2011	Original fee letter 15 April 2011 agreed by the Audit Committee 25 May 2011.	April 2011	Work plan agreed, as summarised below.
Financial Statements				
Interim audit: Compliance with International Standards on Auditing- assessing the effectiveness of the controls operating over the material financial systems	February 2012 to March 2012	We completed updating our documentation and walkthroughs of material systems in March 2012. Where appropriate we have tested key controls identified to assess their operating effectiveness in March 2012. As part of this we have drawn on the findings of internal audit as appropriate. We have also completed early substantive testing where	Not required.	We plan to place reliance on key controls where identified.

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
		possible. The only significant issue arising is in relation to the IT disaster recovery test, which is now planned for June 2012.		
Financial Statements audit	July to September 2012	On-site visit due to commence in July 2012. However, we have begun to consider items that could require specific testing during the final accounts audit.	Annual Governance Report due September 2012. A Final Accounts Memorandum will be issued if there are any other key issues to report.	The Annual Governance Report will summarise our conclusions under the Code of Audit Practice for those charged with governance prior to giving our opinion on the financial statements and our value for money conclusion.
Whole of Government Accounts	September 2012	We are required to audit the whole of government accounts consolidation pack. Our work is performed following completion of the audit of the Council's financial statements.	Audit report provided September 2012	
VFM conclusion	March to May 2012	In 2011/12 auditors will again give their statutory Value for Money (VFM)	VFM conclusion September 2012.	Ongoing updates to be provided

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
		<p>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"> ■ securing financial resilience - focusing on whether the Council is managing its financial risks to secure a stable financial position; and ■ 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. <p>Our work will commence in February 2012.</p>	Findings to be reported in the Annual Audit Letter 2012	
Certification of grant claims and returns	July onwards	In 2011/12 we anticipate being required to certify the following grant claims and returns:	Various deadlines	We will liaise with staff to ensure work is completed to meet the specified deadlines.

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
		<ul style="list-style-type: none"> ■ Housing and Council Tax Benefits Subsidy Claim; and ■ NNDR Return. 		

Appendix 2 - Contact details

31 If you would like further information on any items in this briefing, please feel free to contact either myself or Steve Golding, Audit Manager.

32 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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