

# Audit Progress Report

Shropshire Council

Audit 2009/10

March 2010

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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Introduction

- 1 This report provides the Audit Committee with a summary of progress made on the 2009/10 audit. It also provides information on the planning for the 2010/11 audit year.

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## Assumptions

- 2 Our fee for 2009/10 was based on the assumption that:
  - the internal controls within the Council's financial systems would continue to operate effectively;
  - Internal Audit arrangements would remain effective; and
  - final accounts working papers would be produced to a high standard.
- 3 At this point in the audit, we are not aware of any issues which warrant a change to these assumptions. Therefore no amendment to the fee is anticipated at this stage.

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## Progress on the 2009/10 audit

- 4 The audit of the 2009/10 financial statements is underway. We have:
  - completed the update of our initial planning assessment previously carried out in March 2009;
  - conducted our walkthrough testing of the key financial systems;
  - commenced our review of internal audit files on the key financial systems;
  - commenced our planning update on the audit of the Pension Fund;
  - held our regular meetings with the Director of Resources to discuss audit issues and the Council's progress in readiness for the implementation of International Financial Reporting Standards (IFRS); and
  - have determined a date for the Council's Use of Resources self assessment to be given to us.
- 5 Further details are contained in Appendix 1.

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## Progress on the 2010/11 audit

- 6 We have conducted our initial planning of our 2010/11 audit. We will be issuing a fee letter in late March / early April, following completion of the Audit Commission's review process.

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**Code of Audit Practice and Statement of Responsibilities of auditors and audited bodies**

- 7 We draw your attention to Appendix 2 which provides information on the Code of Audit Practice and Statement of Responsibilities of auditors and audited bodies. These are important framework documents which provide guidance on how the audit is conducted and clarifies the respective roles of auditors and audited bodies.

# Appendix 1 – Audit work against the agreed plan

Audit work	Comments	Position at date of report
Interim audit work	Key to our work on the financial statements is the knowledge that the key financial systems are free from weakness and produce financial statements which are free from material mis-statement. We are currently undertaking our review of the key systems. We have agreed with IA a programme of work that will be undertaken by them on which we can place reliance to support our work.	We have completed our walkthrough on the key financial systems. The work confirmed that the systems are mainly operating in accordance with our documentation. However, we did note that the control to ensure that data is correctly transferred between the housing rents and housing benefits systems did not operate properly. Therefore this can result in the overpayment of benefits where a tenants circumstances change. For example, in the two walkthroughs tests, we identified an overpayment of benefit of £218.85 and £317.30 respectively due to the interface not working properly.
Internal Audit	We continue to liaise closely with Internal Audit (IA) and have agreed a timetable for review of the files covering the key financial systems. We have also completed our triennial review and concluded that good arrangements are in place.	We have completed our triennial review of the IA function and concluded that good arrangements are in place. We have commenced our review of internal audit files on the key financial systems.

## Appendix 1 – Audit work against the agreed plan

Audit work	Comments	Position at date of report
Financial statement audits	<p>The audit of the:</p> <ul style="list-style-type: none"> <li>• Pension Fund is due to start on 21 June; and</li> <li>• Council's financial statements is planned to start on 12 July.</li> </ul>	<p>The outcome of the audit of the financial statements of the Pension Fund and the Council will be reported in September.</p>
Whole of Government Accounts (WGA)	<p>We are required to audit the consolidation pack required by the government in order to produce consolidated accounts for the whole public service. This work is programmed to be undertaken in September 2010.</p>	<p>The WGA Consolidated Pack will be audited following completion of the financial statements audit.</p>
Use of Resources	<p>We will assess the Authority's performance in the areas of:</p> <ul style="list-style-type: none"> <li>• managing finances: sound and strategic financial management;</li> <li>• governing the business: strategic commissioning and good governance; and</li> <li>• managing resources: effective management of assets and people.</li> </ul> <p>The audit will be undertaken during the period March to July 2010.</p>	<p>We have agreed a timetable for conducting the initial review. Our final scores have to be submitted by 30th July 2010.</p>

## Appendix 1 – Audit work against the agreed plan

Audit work	Comments	Position at date of report
Review of partnership working	The County Council had previously established good partnership working with Shropshire County PCT. As part of the need for Shropshire Council to maintain sound arrangements, we will assess the effectiveness and governance of partnership working with Shropshire County PCT. This work will be 'cross cutting', paid for by (and reported to) both bodies. Continued effective partnership and commissioning is important to the continued delivery of good quality services.	Our work is planned to commence in April / May 2010. We will report back once the work has been completed.

# Appendix 2 – Code of Audit Practice and Statement of Responsibilities of auditors and audited bodies

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## Code of Audit Practice

The Commission has a statutory duty to prepare, and keep under review, a code of audit practice prescribing the way in which auditors must carry out their functions under the Audit Commission Act 1998 (the Act). The code must embody what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The Act allows for separate codes to be produced for the audit of local government and NHS bodies.

In developing the current Codes, the Commission's principal aims were to bring about a more streamlined, risk based approach to audit, targeted to areas where auditors have the most to contribute to improvement, together with a stronger emphasis on value for money and clearer reporting of audit results. Specifically, it requires auditors (for the first time) to give a positive conclusion on audited bodies' arrangements to secure value for money, by reference to criteria specified by the Commission. This work focuses on the audited body's corporate performance and financial management arrangements.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime.

Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives;
- outlines their responsibilities regarding the audit of financial statements and use of resources; and
- sets out the range of outputs through which the results of audit are reported.

The local government Code also outlines how auditors should fulfil statutory functions outlined in the Act. These functions are:

- to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts;
- to apply to the court for a declaration that an item of account is contrary to law; and



## Appendix 2 – Code of Audit Practice and Statement of Responsibilities of auditors and audited bodies

- to consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.

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### Statement of responsibilities

The Codes are supported by another key document that is issued by the Commission, the Statement of responsibilities of auditors and of audited bodies. This clarifies the respective responsibilities of audited bodies and auditors. In particular, it makes clear that auditors' reports are addressed to the audited body and that auditors owe no duty of care to individual members of the body or its officers.

The Statement of responsibilities of auditors and of audited bodies has been updated. The new statement is effective from 1 April 2008 and will apply to 2008/09 audits. It reflects changes in our regime and clarifies the responsibilities of auditors and audited bodies in certain areas, including pension funds, charitable funds, data quality and the electronic publication of the financial statements.

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### Link to the documents

The Code of Audit Practice and the Statement of Responsibilities of auditors and of audited bodies is available through the Audit Commission's website. The following link provides access to these documents:

[www.audit-  
Commission.gov.uk/localgov/audit/auditmethodology/Pages/codeofauditpractice.aspx](http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codeofauditpractice.aspx)

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# The Audit Commission

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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## Copies of this report

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