

# External Audit Statement of Audit Progress

Shropshire Council

Audit 2010/2011

February 2011



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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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# Audit update

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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 the Council's external auditor. This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.

2 At the end of this update there are a number of questions which the Audit Committee may wish to consider in order to ensure that it has received sufficient assurance on the emerging issues.

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## Audit coverage and inputs

### 2009/10 audit

3 We issued the opinion for the financial statements, VFM conclusion and also submitted the consolidation pack for Whole Government Accounts.

4 We are required to report a summary of our grant work to the Council. This is being finalised and will be available for the next Audit Committee meeting.

### 2010/11 audit

5 We agreed the Audit Fee with the Chief Executive in April 2010. There have been several changes to the audit requirements and environment within which the Audit Commission and the Council operate and the continued downturn in the economic climate continues to impact on the work we are required to undertake. We revisit our planning throughout the financial year to assess what the key risks to the opinion and new VFM conclusion may be.

6 We have :

- commenced our review of the Information Technology environment as part of our planning update;
- commenced our review of the operation of the key controls within the Council's significant financial systems (including those relating to the Pension Fund);
- commenced our review of the restatement of the Council's financial statements arising from the transition to International Financial Reporting Standards (IFRS);
- held regular meetings with the Interim Head of Finance, Head of Audit and the Finance Manager to discuss audit issues and on going developments at the Council; and
- finance staff have recently attended our final accounts workshop which provides staff with a unique opportunity to focus on any changes for future financial statements, well in advance of the accounts submission date.

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# Other matters of interest

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## National Reports

7 There have been no National Reports released since the last Audit Committee.

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## Other information

### Local Government Finance Settlement 2011/12

8 On 13 December 2010 the Government published proposals for:

- the amount of Revenue Support,
- the amount of the grant to be paid to receiving authorities, and
- the amount of the grant to be paid to the specified body and the distributable amount for 2011/12.

9 Most Local Government bodies have received reductions in their funding and many have been allocated less than expected in the initial budget plans. Therefore, Councils are required to now revisit their budget assumptions for 2011/12 and find further savings to deliver services within their allocation.

### CLG requests greater transparency

10 Six months ago, the Secretary of State for Communities and Local Government (SoS CLG) wrote to all councils calling on them to throw open their files to make local government spending more transparent and show waste is being eradicated. Research by credit experts Experian has revealed that town halls could be wasting nearly £150m on duplicate payments.

11 The call for greater transparency includes publishing details of senior pay, councillor expenses, minutes of meetings, and any useful frontline service data of interest to residents or entrepreneurs. Local Authorities now only have until the end of January to get all of their spending data over £500 published online in accessible formats.

12 The SoS CLG heaped praise on the 144 councils (less than half) that have already gone online, but he gave a stark warning to the 'slow-coach councils' yet to act that they will face tough questions from residents and tough action from him.

13 The Minister's department is leading the way will all its spending over £500 already up online. In addition it is keeping a close watch on councils, logging progress on a public timeline on its website. A code of practice is due to be published shortly.

### The Localism Bill

14 The Localism Bill will put an end to the hoarding of power within central government and top-down control of communities, allowing local people the freedom to run their lives and neighbourhoods in their own way.

**15** The Bill, laid before Parliament mid December 2010, contains a radical package of reforms that will devolve greater power and freedoms to councils and neighbourhoods, establish powerful new rights for communities, revolutionise the planning system, and give communities control over housing decisions.

**16** The legislation will help build the Big Society by radically transforming the relationships between central government, local government, communities and individuals.

**17** For councils the Bill will fundamentally change their freedom to act in the interest of their local communities through a new general power of competence. Rather than needing to rely on specific powers, the new power will give councils the legal reassurance and confidence to innovate, drive down costs to deliver more efficient services.

**18** The Localism Bill contains further measures to strengthen local democracy by:

- Devolving significant new powers to councils - in a major transfer of power from Whitehall to town halls, councils will be freed from bureaucratic constraints with new freedoms and flexibilities to act in the best interests of their area. Councillors will have to approve and be required to publish new Chief Executive pay rules at full Council that management will have to follow. Councillors will no longer be prevented from voting on campaign issues; and there will be a new power to create directly elected mayors in 12 cities giving residents a say in a strong democratically elected leader;
- Establishing powerful new rights for local people and communities - powers for councils are accompanied by greater powers for local people to hold their local authorities to account. Local people and communities will have real power and a bigger say over their area through a new right to challenge to take over services; a new right to bid to buy local assets such as libraries, pubs and shops; a new right to veto excessive council tax rises through a referendum;
- Radically reforming planning - Ministers believe the current planning system is too centralised and bureaucratic, too adversarial and remote from the communities it affects. The Bill will restore democratic and local control over planning by replacing the Infrastructure Planning Commission with an efficient and democratically accountable system for major infrastructure. The Bill will enable regional planning to be swept away and in its place neighbourhood plans will become the new building blocks of the planning system where communities have the power to grant planning permission if a local majority are in favour;
- Making housing fairer and more democratic - the Bill will return decision-making powers on housing to local councils and communities through a new Community Right to Build giving communities the freedom they need in order to come together to build new homes & amenities in their towns & villages. Home Information Packs will be formally scrapped. The Bill will put councils in charge of allocation and tenure of social housing, giving councils the flexibility to use their social housing stock to the maximum effect and reduce waiting lists. It will be easier for social tenants to relocate through a new National Homeswap Scheme, and councils will be able to offer flexible solutions to people at risk of homelessness. The Housing Revenue Account Subsidy system will be replaced with a more transparent system that serves local communities. Tenants will be able to scrutinise the services

offered by their landlords and hold them to account. The Tenant Services Authority will be abolished but its vital economic regulation functions will be preserved; and

- Creating powerful incentives for economic growth - the Bill will give local government a stronger financial stake in the local economy, helping rebalance the economy, so it is more entrepreneurial and attracts local business by allowing local authorities to grant discretionary business rate discounts; making small business tax breaks easier to take advantage of; giving affected businesses a greater say in rate supplements and cancelling certain backdated business rates including port taxes.

### **Consultation on the CLG Business Plan**

**19** The CLG Business Plan was published on 8 November 2010 as part of a coordinated launch of departmental business plans, setting out in detail the public sector reforms the Coalition Government is undertaking.

**20** As well as detailing the scale of the reforms, the plans are set to change the way departments are held accountable for putting policies into practice. The plans will also give members of the public more detail on the work of Government than they have ever had before.

**21** The CLG plan includes sections on:

- Vision;
- Coalition priorities;
- Structural Reform Plan;
- departmental expenditure; and
- transparency

**22** The indicators and information strategy in the transparency section of the Business Plan have been published for consultation.

**23** The purpose of this engagement is to seek feedback from departmental partners and members of the public, to ensure that this section of the Business Plan contains the most relevant and timely information and technically robust indicators.

**24** The consultation ends on 31 January 2011. The final plan will go live in April 2011.

**25** You may wish to comment on whether CLG:

- have selected the right indicators and measures and clearly explained their meaning in order to give you a helpful overview of its spending and performance. If you do not feel they have, any suggestions for the measures they should consider using;
- have put robust data systems in place to ensure that the information provided is accurate, timely and robust and the quality is fit for purpose;
- have clearly defined our commitment to publishing data to help you judge performance and whether the data that will be published meets your needs;

- should be mandating or encouraging the publication of extra data, or data broken down in a different way, that you would find helpful in holding us to account or making choices about your public services (subject to the collection burden) - Public Sector Information Unlocking Service; and/or
- can do more to engage you in helping us to meet our commitment to transparency and to make data available in the most helpful format;
- can do more to avoid unnecessary data burdens for local authorities.

**26** To give your views or to receive further information, please contact [business.plan@communities.gsi.gov.uk](mailto:business.plan@communities.gsi.gov.uk).

### **Looking Ahead**

**27** We have previously advised you of the proposal of the SoS CLG to abolish the Audit Commission.

**28** The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation. Ministers have said that the Commission's Audit Practice is to be transferred to the private sector.

**29** This represents an exciting opportunity for us. We are already exploring a number of potential options, including mutualisation as an employee owned partnership. We anticipate the proposed move to the private sector, independent of Government, will provide us with a groundbreaking opportunity to continue to thrive and develop our practice. Throughout this process we will remain committed to providing excellent service to our clients.

**30** To assist Ministers as they consider the options for transferring the practice to the private sector, we are developing plans to form a mutual business. Neil Childs, Director of Audit, says: "Mutualisation would enable us to continue to offer you a distinctive alternative to the big firms. We will continue to provide you with unrivalled expertise in public audit and advisory services, focused on the challenges you face, at competitive fees".

**31** We expect Ministers to make a decision in principle over the exact form of the transfer of the audit practice to the private sector early in 2011.

### **2011/12 Audit Fees**

**32** The Audit Commission began the consultation on the proposed work programmes and scales of fees for 2011/12 on 10 December 2010. This is significantly later than planned as, in setting scales of fees for 2011/12, the Audit Commission Board has had to agree with CLG how any costs associated with the proposed abolition the Audit Commission would be funded.

**33** CLG has provided assurances to the Audit Commission's Board that it will meet any liabilities which cannot be met from the Audit Commission's own reserves. CLG is also working with the Audit Commission to develop the best option for the future of the Audit Commission's pension scheme, which protects members' accrued rights and delivers best value for taxpayers, whilst avoiding potential liabilities being crystallised.

**34** Based on these assurances, the Audit Commission believes it does not need to provide for these costs in setting the audit fees for 2011/12. The proposed work

programmes and scales of fees for 2011/12 therefore reflect the Audit Commission's original three year programme to deliver cost cuts of about £70 million (or 30 per cent) and lower fees from 2011/12.

**35** The proposals for 2011/12 are for further reductions in total audit fees as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a reduction in scale fees resulting from our new approach to local VFM audit work of 2 to 20 per cent; and
- a reduction in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower ongoing audit costs after implementing IFRS.

**36** In the light of the Secretary of State's announcement regarding the proposed abolition of the Audit Commission, we cannot say anything at this stage about audit fees beyond 2011/12.

**37** The Audit Commission, with other stakeholders, is working with CLG to help it develop its proposals for a new local public audit framework. The new audit arrangements and their implications for audit fees, the timetable for implementing them and any transitional arrangements that may need to be put in place have yet to be determined. The new arrangements will need to be reflected in legislation, which CLG is planning to introduce in 2011.

**38** The consultation document is available on the Audit Commission's website and we plan to publish the scales of fees for 2011/12 by the end of February 2011.

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## Challenges Faced By Audit Committees

**39** On 18 November 2010 the Financial Reporting Council (FRC) published a report highlighting the latest challenges faced by Audit Committees. Although the report is mainly aimed at the private sector, there are also some important messages for Councils.

**40** The FRC reports that many large companies have been able to access conventional debt markets and are hoarding cash. There continues to be regular reports of funding difficulties towards the middle and smaller end of the market and the FRC stresses the importance of forecasting cash flows accurately.

**41** Recent studies by the FRC have identified room for improvement in the approach to risk management. Commentators observe that some companies present a list of all possible risks rather than those that might be regarded as "principal risks".

**42** Work by the FRC has also identified that it is not always clear whether risks and uncertainties have been fully evaluated and taken into account in preparing budgets and forecasts.

**43** We updated you at the last Audit Committee on our approach to accounting estimates. The role of the Audit Committee is covered by the FRC's report. It states that Audit Committees are likely to want to be convinced that key judgments are supported by a more rigorous and robust analysis than in more benign circumstances.



44 The FRC's paper, which can be found on its website, ends with a series of questions that Audit Committees may find it helpful to review themselves against.

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# Key Considerations

45 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council set its 2011/12 budget in line with the allocations from Central Government and other income assumptions?
- Is the Council in a position to report all items of expenditure over £500 in line with the Government's timescale?
- Has the Council considered the impact of The Localism Bill in relation to the services it delivers?
- Has the Council responded to the consultation on the CLG Business Plan?
- Has the Audit Committee considered the recent report by the Financial Reporting Council on challenges they are facing?

**Erik Bagnall**  
Audit Manager

January 2011

# Appendix 1 – 2010/11 Programme

Programme	Progress	Main Conclusion / Findings	Deadline for draft report	Audit Committee meeting
<b>Audit Plan</b>				
Initial Fee Letter 2010/11	Completed	The indicative fee was agreed by the Chief Executive in April 2010.	April 2010	June 2010
Audit Opinion Plan 2010/11	Completed	This has been agreed with the Interim Head of Finance.	January 2011	February 2011
<b>Opinion</b>				
Interim work on arrangements to support the opinion	Commenced		Report through Statements of Audit Progress	N/A
Review of the financial statements	Not started		September 2011	September 2011
Annual Governance Report	Not started		September 2011	September 2011

Programme	Progress	Main Conclusions / Findings	Deadline for draft report	Audit Committee meeting
<b>VFM conclusion</b>				
Assessment of the Council's performance against the Value for Money criteria informing the VFM conclusion	Not started		September 2011	September 2011
<b>Annual Audit Letter</b>				
Annual Audit Letter 2010/11	Not started		October 2011	November 2011

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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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