

# Progress report

June 2011

Shropshire Council

Audit 2010/11

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**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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# Audit Progress Report

## 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. This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.

2 If you require any additional information regarding the issues included within this briefing, please feel free to contact me using the contact details at the end of this update.

## Audit coverage

### 2010/11 audit

3 Subject to my review of Internal Audit's review of Housing Rents, I have completed my pre statements testing of the key controls within the Council's significant financial systems (including those relating to the Pension Fund). At this stage of the audit, I have identified several systems where I have been unable to gain assurance over some of the assertions (see Appendix 3 for definitions) within the system. For the majority I will be able to gain assurance as part of my planned post-statements work but for payroll there is the possibility that I may have to undertake additional testing. I have detailed this in the table below.

Table 1: **Key financial systems and related assertions where no assurance obtained from pre statements work**

<b>Financial System</b>	<b>Assertions where no assurance obtained from pre statements work</b>	<b>Comments</b>
Sales Ledger (Trade Receivables)	Cut off	The identified control operates at year end and will be tested at post statements.
Housing Benefits	Cut off Classification	The monthly and year end reconciliation between general ledger and housing benefit system had not been done at the

		time of the walkthrough. I will review these at post statements.
Creditors (Trade Payables)	Cut off	The identified control operates at year end and will be tested at post statements.
Payroll	Occurrence	There have not been any establishment lists issued to departments at the point of my review. I will undertake additional testing at post statements.
Asset management (Property, Plant and Equipment)	All assertions	The Fixed Asset register is completed after the year end. Therefore my testing will be conducted at post statements.

**4** I have commenced testing to support my work on the financial statements. This includes testing the assertions of existence and rights and obligations relating to Property, Plant and Equipment.

**5** My review of the restatement of the Council's financial statements arising from the transition to International Financial Reporting Standards (IFRS) is substantially complete. I am pleased to report that there are no significant issues arising.

**6** My work on the Value for Money (VFM) conclusion is substantially complete. I have yet to undertake a review of quarter one financial and performance indicators. This review will contribute to my overall conclusion. At this stage there are no significant issues arising which require reporting to Members.

**7** The Council has agreed to perform testing of selected individual benefit claims as part of my work on the Housing Benefit and Council Tax Subsidy claim. As part of this, I will provide your officers with guidance on my requirements for documenting the testing. I will later conduct a review of the work to determine its suitability for gaining assurance over the accuracy of your subsidy claim.

**8** I have received documentation from a local government elector querying a social care needs assessment in respect of his dependents. I have discussed this with the Chief Executive and I am awaiting a response as to the procedures followed by the Council in evaluating the complaint.

9 I continue to hold regular meetings with the Interim Head of Finance, S151 Officer, Service Manager- Audit and the Finance Manager to discuss audit issues and on going developments at the Council. I have also met the incoming Head of Finance.

### **Prior year accounts**

10 With the conclusion of the Veolia and Nottinghamshire County Council court case (Appendix 2) local authorities must now conduct a balancing exercise in each case to determine whether disclosure of requested information is justified. In practical terms, this balancing exercise will be carried out in the same way as under freedom of information legislation. The public interest in transparency and accountability will need to be weighed against the degree of confidentiality and commercial value of the information.

11 The council has been in dialogue with two local electors in respect of the disclosure of information in respect of its own waste management contract which may have been impacted by this case and the ability of the individuals to exercise their rights to ask me questions or raise an objection. As a result the audit certificates for the 2008/09 and 2009/10 have not yet been given.

12 I have now been informed that the council is satisfied that it has complied with its legal obligations. I am therefore in the process of writing to the local electors to give them a final opportunity to exercise their statutory rights. Once this process has been completed I hope to be in a position to conclude these audits.

## Other Matters of Interest

**13** Below are recent reports and announcements which may be of interest to all members:

### **Housing Revenue Account (Accounting Practices) Directions 2011**

**14** On 19 May 2011 CLG published the final Housing Revenue Account (Accounting Practices) Directions 2011 on its website. This document is unchanged from the consultation document issued on 1 April 2011.

**15** The directions confirm that when carrying out a valuation of assets within the Housing Revenue Account of an authority, the proper practices to be followed are the practices set out in the Stock Valuation for Resource Accounting: Guidance for valuers-2010.

### **Treasury Management in the Public Sector**

**16** CIPFA has published Treasury Management code essentials. This summary provides those with responsibility for treasury management, such as local authority councillors, with a short summary of the essentials from Treasury Management in the Public Services: Code of Practice and cross - sectoral Guidance Notes (CIPFA's Treasury Management Code).

### **Audit Commission national report - Going the distance-achieving better value for money in road maintenance**

**17** The Commission has found that the cost of maintaining roads is now 50 per cent higher than it was ten years ago, in part due to inflation in road materials and construction costs. Other pressures facing councils are:

- Road traffic is expected to increase by more than 30 per cent by 2025;
- In the next three years there will be a 26 per cent drop in government revenue funding and 16 per less capital funding via local transport plans;
- Damage by utilities works costs nearly £50 million every year.

**18** Public perceptions of whether roads are in good shape are often only skin deep, so potholes and patchworks attract the most criticism. But dealing with these so-called 'worst first' surface issues must be weighed against prolonging a road's 'whole life' before it is too late.

**19** The report urges councils to consider asset management plans, such as Cornwall's Transport Asset Management Plan (TAMP), which for an investment of £80,000 is driving consistent levels of service and road condition across the whole county. Such plans also indicate when best to intervene with works to extend the whole life of a road, typically a maximum of only 20 years.

**20** The Midlands Highway Alliance estimates it has delivered £5.1 million savings for councils and £7.8 million for the Highways Agency in its first three years, and it is looking to a further £14 million of savings between 2010 and 2014. Ten authorities in the East of England have also formed an alliance to save £6m over five years, with £3.3 million from shared back office costs alone.

### **Audit Commission national report - Improving value for money in adult social care**

**21** A new Commission briefing finds councils need to increase the pace and scale of change of efficiency in adult social care to release material savings and improve care for people. However, councils are changing their approach and have looked at many aspects of the service in order to provide better, more efficient services.

**22** The briefing identifies nine areas in which councils can make changes to deliver efficiency savings. They are procurement; staffing; back office; assessment and care management; prevention; personalisation; changing the balance of care; partnership and charging. Most councils have addressed a combination of these factors, but no one council has made changes to all nine.

**23** One big opportunity for councils to do things differently in the coming years will be working more closely with the NHS. Working together they can make savings by commissioning or delivering services jointly, cutting duplication and avoiding simply transferring costs from one organisation to another.

### **New Local Government Network examines new ways of capital funding**

**24** The New Local Government Network has launched a Capital Futures Taskforce to examine what new forms of capital funding councils will need to be able to invest in community development and regeneration at a time of government cuts.

**25** The NLGN research paper released today, *Localist capital finance: the challenges ahead*, highlights the potential for local authorities to use bond issues more to raise finance, including 'Scandinavian-style bond clubs'. It points out that the Government's plans for localism allow councils to examine new funding mechanisms, following reductions in capital grants and government credits for Private Finance Initiative schemes. The possible options, which might also include the use of financial instruments such as derivatives, will be investigated by the taskforce. It will report by the end of the year.

### **DCLG toolkit to help local councils and communities better identify empty homes**

**26** The Geographical Information System (GIS) Empty Homes Mapping Toolkit, which plots the location of long term empty homes in private ownership across the country, has been developed to allow councils to



pinpoint empty homes 'hot spots' in their area, and work with the landlords and local community to bring the derelict properties back into use.

**27** The Empty Homes Knowledge Toolkit will be a new 'one-stop shop', giving local authorities, housing associations, empty property owners, landlords and the wider community access to everything they need to know about bringing properties back into use, including the legislative frameworks, partnership building and investment mechanisms.

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District Auditor

June 2011

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## Appendix 1 2010/11 audit programme

Table 2: **Progress of the 2010/11 audit plan**

<b>Programme</b>	<b>Progress</b>	<b>Conclusions / Findings</b>	<b>Deadline for draft report</b>	<b>Audit Committee meeting</b>
<b>Audit Plan</b>				
Initial fee letter 2010/11	Complete	Indicative fee was agreed by the Chief Executive in April 2010 and presented to Audit Committee.	April 2010	June 2010
Audit Opinion Plan 2010/11	Complete	This has been agreed with the Interim Head of Finance and presented to Audit Committee.	January 2011	February 2011
<b>Opinion</b>				
IFRS restatement work	Significantly complete and final review to be completed in June		Report through External Audit Progress Reports	June 2011
Interim work on arrangements to support the opinion	Completed subject to review of Internal Audit work on housing rents		Report through External Audit Progress Reports	June 2011

Review of financial statements	Not started		September 2011	September 2011
Annual Governance Report	Not started		September 2011	September 2011
<b>VFM conclusion</b>				
Assessment of the Council's performance against the VFM conclusion	Work is ongoing.		September 2011	September 2011
<b>Annual Audit Letter</b>				
Annual Audit Letter 2010/11	Not started		November 2011	February 2012
<b>Grant Claim certification report</b>				
Grant Claim Certification report 2010/11	Not started		February 2012	March 2012

## Appendix 2 Summary of Veolia Judgement

### **At the end of 2010 the Court of Appeal issued its judgment in the case of Veolia ES Nottinghamshire Ltd v Nottinghamshire County Council.**

A local elector, Mr Downen, wanted to inspect confidential schedules of Nottinghamshire County Council's waste management contract with Veolia under section 15 Audit Commission Act 1998 (ACA). The High Court decided there was no power under section 15 ACA to withhold or redact commercially sensitive or confidential material, and so the schedules were disclosed.

Veolia appealed the judgment as it realised Mr Downen wanted to inspect further, even more contentious schedules in the contract. The Court of Appeal ruled that under human rights law, those further schedules were protected and should not be disclosed.

The Court found the Commission's arguments on the issues were very persuasive and helpful to their decision making. They commented that the Commission had "shown the way".

### **The scope of section 15 ACA**

The Court of Appeal had first to determine the definition of 'accounts to be audited' and whether the Veolia contract 'related to' them.

Although there was no statutory definition of 'accounts to be audited', the Court held that the expression should be given a wide meaning, particularly as Schedule 2 of the ACA refers to 'all accounts' of the local authority.

The words 'relating to' do not mean the same as 'referring to'. The contract related to the accounts whether or not the accounts referred to the contract specifically.

Therefore the Veolia contract and invoices issued under it fell within the scope of section 15 ACA.

### **Confidential information**

The Court had then to decide whether the protection given to 'possessions' under human rights law extended to commercially confidential information, an argument that Veolia had not raised in the lower court. The Court ruled that it did, and hence commercially confidential information should not be disclosed under section 15 unless there is sufficient justification for disclosure and it is proportionate to disclose that information.

## **What does this mean in practice?**

If commercially confidential information is sought under section 15, local authorities must now conduct a balancing exercise in each case to determine whether disclosure of the information is justified. In practical terms, this balancing exercise will be carried out in the same way as under freedom of information legislation. The public interest in transparency and accountability will need to be weighed against the degree of confidentiality and commercial value of the information.

In effect, section 15 ACA now gives no wider rights to disclosure of commercially confidential information than freedom of information legislation.

# Appendix 3 Assertions

An audited body's management are responsible for the preparation and presentation of financial statements which fairly reflect the nature and activity of the entity for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosure of the various elements of the financial statements and related disclosures. These representations from the management are referred to as assertions about the financial statements in International Standards on Auditing (United Kingdom and Ireland) 315. The assertions are as follows:

Assertion	ISA (UK&I) Definition	What does it mean?	Revenue	Balance Sheet	Disclosures
Occurrence	"Transactions and events that have been recorded have occurred and pertain to the entity"	Starting with the statements, have the transactions actually happened and related to the audited body (this is obviously more of a risk where a shared service is involved), can also include fraudulent transactions, ghost employees.	Y		Y
Completeness	"Transactions and events that should have been recorded have been recorded"	Not starting with the statements, is everything that should be in the statements in the statements, for example, have invoices been omitted, have all potential provisions been considered? The asset/liability (A/L) exists but has not been shown, could be shown in the wrong year or omitted completely.	Y	Y	Y
Accuracy	"Amounts and other data relating to recorded transactions and events have been recorded appropriately"	This assertion not only covers whether items been entered at the correct amount, but also, have they been coded correctly.	Y		Y
Cut-off	"Transactions and events have been recorded in the correct accounting period"	This is the audited body's controls over cut-off, not the substantive test. Monthly controls over occurrence and completeness may also be applicable to cut-off when applied at year end.	Y		
Classification	"Transactions and events have been recorded in proper accounts"	Have transactions been disclosed under the right headings in the statements/notes.	Y		Y
Existence	"Assets, liabilities and equity interests exist"	Here, the focus is on whether the liability or asset exists, is it still owing at the end of the year? Should there be an A/L and there isn't (should it be material?).		Y	
Rights and Obligations	"The entity holds or controls the rights to assets, and liabilities are obligations of the entity"	Short term - Relates to occurrence in that you're looking at whether the balance is a genuine right or obligation. Long term - It may exist but does the audited body have the rights or the obligations to use and maintain it (i.e. leased assets)? Has it been sold, have the terms changed (investments)? Note, this is not just about legal ownership.		Y	Y
Valuation and Allocation	"Assets, Liabilities and equity interests are included in the financial statements at appropriate amounts and any resulting valuations or allocation adjustments are appropriately recorded"	A/L which should be shown however the DR Debit / CR Credit is shown in the wrong place or the wrong amount, e.g. Debtor should have been raised but has been DR Debit Cash instead.		Y	Y