

Audit **Committee** **update**

Shropshire 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 national issues and developments which may be of interest to members of the Audit Committee.
- 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) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Grant Patterson

District Auditor / Engagement Lead

June 2012

Progress report

Financial statements

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 within the system. For the majority I will be able to gain assurance as part of my planned post-statements work but for payroll I have had 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**

Financial System	Assertions (as defined in Appendix 1) where no assurance obtained from pre statements work	Comments
NNDR	Cut off	The identified control operates at year end and will be tested at post statements.
Sales ledger	Cut off	The identified control operates at year end and will be tested at post statements.
Treasury management	Cut off	The identified control operates at year end and will be tested at post statements.
Housing benefits	Cut off and classification	The identified control operates at year end and will be tested at post statements.
Purchase ledger	Cut off	The identified control operates at year end and will be tested at post statements.

Financial System	Assertions (as defined in Appendix 1) where no assurance obtained from pre statements work	Comments
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.

VFM conclusion

5 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.

Other areas of work

6 I have received documentation from a local government elector querying the Council's approach to disposals of smallholdings. I have provided a response to the elector who has also raised the issue with Internal Audit. I have informed Internal Audit of the work which I have conducted and they are addressing additional questions raised.

7 I have an ongoing query relating to social care needs assessments. I need to view evidence of the assessments undertaken before I am able to conclude my investigation and formally respond to the elector. Given the sensitive nature of the information within such files I am liaising with officers to put arrangements in place to view the files and I am currently awaiting confirmation of an appropriate time.

8 I have conducted a review of the issues raised by an elector in respect of the cost of the construction of the Quantum Leap structure. My work is

nearing completion. I am currently minded not to issue a report in the public interest. I believe a more appropriate way for me to report these matters is through the report being on the public agenda of the Audit Committee and, if required, making recommendations to the Council.

9 A draft report has been produced. There are some areas where further clarification or information might further inform my conclusions and judgments. The Council is therefore in the process of assessing whether evidence of processes, arrangements and actions that were in place prior to local government reorganisation is available. Once this is complete I should be able to bring the matter to a conclusion. In the interim I continue to hold regular meetings with the Corporate Head of Finance and Commerce to discuss audit issues and on-going developments at the Council.

Update on the externalisation of the Audit Practice

10 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.

11 A verbal update was provided to the last Audit Committee meeting and 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. This shows that the fee for Shropshire Council will be £177,390 which is a reduction of 40% on the 2011/12 fee.

- 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 in 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 was 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. Representatives of the Council attended the West Midlands meeting on 30 April.

12 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.

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

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

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

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and 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

Local government capital finance system

16 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.

17 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.

18 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.

19 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

Openness and accountability in local pay

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

21 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.

22 The statement must be:

- approved by full Council, and
- published on its website (Shropshire Council have a specific page on the website detailing the position at June 2012 for senior staff salaries and expenses).

Accounting for HRA Self Financing

23 In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions

take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012.

Contact details

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

25 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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Appendix 1 Definition of Assertions

Table 2: **Assertions and their relevance to the financial statements**

Assertion	Definition	Relevance to financial statements area
Occurrence	transactions and events that have been recorded, have occurred and relate to the Council.	Revenue account assertion Disclosure assertion
Completeness	all transactions and events that should have been recorded have been recorded	Revenue account assertion Balance sheet assertion Disclosure assertion
Accuracy	amounts and other information relating to recorded transactions and events have been recorded appropriately	Revenue account assertion Disclosure assertion
Cut off	transactions and events have been recorded in the correct accounting period	Revenue account assertion
Classification	transactions and events have been appropriately presented and categorised in the proper accounts	Revenue account assertion Disclosure assertion
Existence	assets and liabilities exist	Balance sheet assertion

Rights and obligations	the Council holds or controls the rights to assets, and liabilities are the obligation of the Council.	Balance sheet assertion Disclosure assertion
Valuation and Allocation	assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.	Balance sheet assertion Disclosure assertion

Source: ISA (UK and I) 500

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- any third party.



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June 2012