

# **Audit and Risk** **Management** **Committee** **update**

**Wirral Borough Council**

**Audit 2011/12**

**24 January 2012**

**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 and Risk Management 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 and Risk Management Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

**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](http://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.

Mike Thomas

District Auditor

24 January 2012

# Progress report

## Financial statements

**5** .We reported to members in September 2011 the outcome of our 2010/11 audit in our Annual Governance Report. We have recently issued and agreed a supplementary memorandum to officers setting out some of the more detailed issues and how they can be improved in 2011/12. We recently discussed and agreed with the Deputy Chief Executive and Director of Finance, an additional fee of £30,000 in respect of the additional work undertaken in completing the audit for 2010/11.

**6** We have completed our initial planning for our 2011/12 audit. Our Audit Plan for 2011/12, to be considered on the same Audit & Risk Management Committee agenda as this update report, sets out our key audit risks and the nature and timing of our proposed work. We will shortly be issuing a detailed working paper requirements document to officers and developing more detailed milestone dates for completion of the accounts and audit of the statements.

## VFM conclusion

**7** We have completed our initial planning for our 2011/12 work on the VFM conclusion. Our Audit Plan for 2011/12 discusses the significant risks we have identified relevant to our VFM conclusion and our planned audit response.

## Other areas of work

**8** Our audit of 2010/11 grants is now complete. We will report the outcome of this work to this Audit and Risk Management Committee at its next meeting.

**9** We are in the process of finalising our 2010/11 follow up work on the HESPE contract. A report has been issued to key officers to check for factual accuracy. As this work was outside the original audit plan we have also discussed and agreed an additional fee of £32,000 with the Deputy Chief Executive and Director of Finance to cover the audit resources input to date.

# Government response to consultation on the future of local public audit

**10** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**11** The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**12** Thereafter, the government proposes that a new local public audit regime will apply. 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.

**13** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

# Update on the externalisation of the Audit Practice

**14** The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

**15** The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission is planning to set out, early in 2012, the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.
- Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

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



- 17 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

## Auditing the 2010/11 Accounts

**18** The Audit Commission on 15 December 2011 published its national report on Auditing the Accounts 2010/11 covering 457 local government bodies including 356 councils. The overall message is that 'bodies generally maintained their standard of performance on financial reporting for 2010/11' and this is also true of Wirral Council. The final outcome for Wirral opinion audit compared to other councils can be seen in the context of the national picture as follows:

- We gave an unqualified opinion on the financial statements (1 council's opinion was qualified but there are 9 outstanding opinions still to be given at councils)
- We gave the opinion by the deadline of 30 September 2011 (8% of opinions in councils were not given by the deadline)
- the statements were published by the deadline of 30 September 2011 (15% local government bodies did not publish by the deadline)
- The statements were corrected for the material adjustment identified during the audit although this was not IFRS related (63% of councils had to correct material misstatements identified during the audit);
- We were not able to give the assurance report on Wirral's Whole of Government Accounts (WGA) return until after the deadline of 30 September 2011 (32% of assurance reports in councils were issued after the deadline)
- We issued a qualified 'consistent with, except for' assurance report on Wirral's WGA (2% of councils had a 'consistent with, except for' assurance report).

## Lets be clear: Making local authority IFRS accounts more accessible and understandable

**19** While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are often a poor way of communicating information to lay readers.

**20** There are several claims made about why local government accounts are so complex. Some people suggest that CIPFA and the standard setters are to blame for following private sector accounting standards. They say the solution lies in bespoke accounting standards, not tied to private sector practice, but perhaps aligned with other parts of the public sector.

**21** The Commission believes that the debate on improving the accessibility and clarity of local government accounts is an important one and we will

continue to work with CIPFA, practitioners, auditors and other stakeholders to bring about improvements.

**22** This latest briefing supplements the Commission's Auditing the Accounts report for 2011, as above. It identifies possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so. It suggests ways in which information about the financial position and performance of local authorities can be made more accessible and understandable to a wider range of people.

## 2011/12 Final Accounts Workshops

**23** We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

**24** The closest event for Wirral Borough Council is at Halton Borough Council on 8 February 2012 and key Finance staff have enrolled on this.

## Managing Workforce Costs

**25** The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

**26** The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

**27** As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

**28** Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

**29** The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;

- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
  - a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.
- 30** The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.
- 31** The questions are in two parts:
- the information that should be available to members about the workforce; and
  - the savings strategies councils could follow in the light of that information.

## Joining up health and social care

**32** On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

**33** 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

**34** At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

**35** The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

**36** The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

## CIPFA's Prudential Code for Capital Finance

**37** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**38** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**39** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**40** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**41** The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are designed to both support and record local decision making and are not designed to be comparative performance indicators.

## 2011/12 Accounts: CIPFA Guidance Notes for Practitioners

**42** CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

43 The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops.

## For information: Board Governance Essentials

44 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

45 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

46 This guide may provide interesting reading for all members.

## Local Government Finance Bill

47 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

48 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

49 The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

# Key considerations

**50** The Audit and Risk Management Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper. Has the Council reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?

- Has the Council reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit and Risk management Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Council circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit and Risk Management Committee satisfied that the questions within the briefing have been properly considered by the Council?
- Has the Council reviewed the questions included in the Audit Commission's briefing paper on joining up health and social care?
- Has the Council used the Audit Commission's tool to benchmark the performance of its NHS and social care partnership?
- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?

## Contact details

**51** 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.

**52** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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