

# **Audit** **Committee** **update**

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**Wirral Council**

**Audit 2011/12**

**14 June 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 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 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 / Engagement Lead

14 June 2012

# Progress report

## Financial statements

5 We have completed our initial planning and part of our interim work for our 2011/12 audit. Our Audit Plan for 2011/12 was considered by the January 2012 Audit & Risk Management Committee and set out our key audit risks and the nature and timing of our proposed work. We have recently issued a detailed working paper requirements document to officers and are reviewing the Council's more detailed closedown plan with milestone dates for completion of the accounts and audit of the statements.

6 We have also fed back to officers issues arising from the interim work completed to date and issued a memo for management's attention. There are two systems where we have findings with significant impacts on the system of internal control: accounts payable and property, plant and equipment. The specific findings inform our opinion audit and the wider control environment implications inform our Value for Money Conclusion.

## 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.

8 We have now issued a Report in the Public Interest in respect of the 2010/11 follow up work on the Highways and Engineering Services (HES) contract. As this work was outside the original audit plan we discussed and agreed an additional fee of £30,000 with the Deputy Chief Executive and Director of Finance to cover the audit resources input for 2010/11.

## Annual audit letter 2010/11

9 I have still to issue my Annual Audit Letter for 2010/11. I will aim to do this in the near future. I will consider the impact of the ongoing work on the HES when finalising my fees for 2011/11.

## Other areas of work

### 2010/11 grant claims and returns

10 Our audit of 2010/11 grants is complete. The report on the outcome of this work was presented to the March 2012 Audit and Risk Management Committee meeting and included feedback on the grant claims certified in 2010/11 with the exception of two claims where we were still agreeing with

officers the actions for improving arrangements. We have now completed a supplementary grant claims report to cover the detail of these two claims and this is being presented to this meeting of the Committee.

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

**11** 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.

**12** The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 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.

**13** Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- 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 National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**14** The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

**15** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in 2012.

# Update on the externalisation of the Audit Practice

**16** 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.

**17** 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 intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012. For Wirral Council this has been confirmed as me.
- The Commission has now written to all audited bodies 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 has proposed 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.

**18** 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.

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

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

**21** 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

## 2012/13 audit fees

**22** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of health and local government bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April. The proposed fee for Wirral Council for 2012/13 is £ 211,680.

## Annual fraud and corruption survey 2011/12

**23** On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year. The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

**24** I can confirm that Wirral has submitted data for the survey in line with the deadline. We are currently reviewing the data for consistency with our existing knowledge of the Council (we are not required to confirm the accuracy of the submission) and will report any inconsistencies between that knowledge and the data submitted.

## National Fraud Initiative

### Scale of fees for 2012/13

**25** The Audit Commission has approved the 2012/13 work programme and scales of fees for its audited bodies who participate in the National Fraud Initiative (NFI), following a consultation which closed on Friday 23rd March 2012. The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing in the current economic climate the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Wirral Council this is £4,000.

**26** The Commission conducts the NFI under its statutory data matching powers under Part 2A of the Audit Commission Act 1998. The NFI takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

27 A second consultation also sought comments on the Commission's proposed approach for rolling out the new NFI real time and flexible data matching services.

### **NFI report 2010/11**

28 The [National Fraud Initiative 2010/11 \(PDF, 3.5Mb\)](#), in England has identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million of outcomes not previously reported from earlier exercises.

29 The report is supported by:

- [Council members' briefing and checklist \(PDF, 224Kb\)](#)
- [Case studies](#) of successful outcomes both in the private sector and public sector

## **Local government capital finance system**

30 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.

31 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.

32 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.

## **Openness and accountability in local pay**

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

34 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.

35 The statement must be:

- approved by full Council, and
- published on its website.

# Key considerations

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

- Have members considered the NFI checklist?
- Has the Council considered the implications of the amendments to the capital financing regulations?

## Contact details

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

**38** 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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