

Progress report and briefing

April 2011

Brighton & Hove City Council

Audit 2010/11

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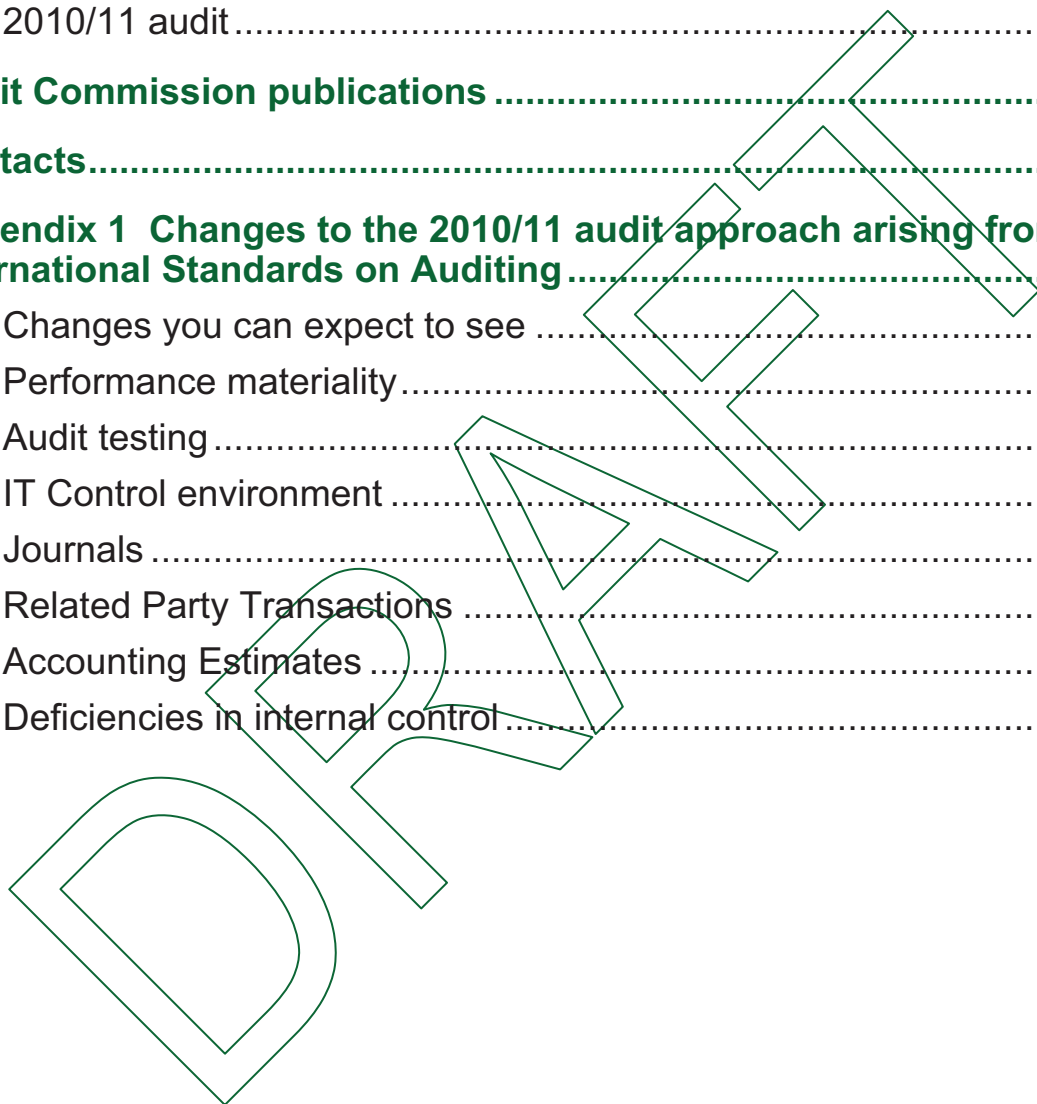
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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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Audit progress

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering my responsibilities as the Council's external auditor.

2 If you require any more information about the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team. Contact details are set out at the end of this update.

2009/10 audit

3 My work on the 2009/10 audit is now almost complete. I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I have had to consider two objections raised by a local elector to the Council's 2009/10 financial statements. I have determined one of those objections and am currently considering the second objection. I am, however, satisfied the matters raised do not have a material affect on the Council's accounts and I have therefore been able to issue the audit opinion.

2010/11 audit

Financial Statements

4 The proposed timing for my audit work is set out in table 1.

Table 1: **Audit time line**

Work Flow	Date of completion	Reports / Progress
Documentation and walkthrough of key financial systems	January 2011	Completed. My work to document and walkthrough the Council's new Midland iTrent payroll system suggests the control environment has improved compared with that in the outgoing Team Spirit system. I therefore intend to rely on controls in the Midland iTrent system to gain assurance over 2010/11 payroll spending produced by the new system.

Work Flow	Date of completion	Reports / Progress
		<p>Internal Audit is testing controls in the new systems and I intend to review and rely on this work. I will report the results of this work in my annual governance report.</p>
<p>Review of 2010/11 restated International Financial Reporting Standard (IFRS) accounts</p>	<p>April 2011</p>	<p>No specific report. I have audited most of the work done by the Council to be able to restate the 2010/11 financial statements to comply with the requirements of IFRS. Good quality working papers have been produced to support the transition to IFRS and I am satisfied the Council is making good progress. There has, however, been some slippage against the Council's planned timetable for this and fully restated accounts have yet to be produced (as at March 2011). The delays have been caused by the added workload placed on valuers caused by the recategorisation of assets in the Council's financial statements.</p>
<p>Audit Commission controls testing. Review of Internal Audit controls testing.</p>	<p>April 2011</p>	<p>Work received so far from Internal Audit has been delivered on time and is of an acceptable standard. My team's review of Internal Audit testing of financial controls is underway. I will report any significant weaknesses in internal control and associated recommendations in my annual governance report.</p>

Work Flow	Date of completion	Reports / Progress
Post statement audit and financial statements opinion.	By 30 September 2011	The results of my work on the 2010/11 financial statements will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.
VFM work.	By 30 September 2011	Detailed work to inform the 2010/11 VFM conclusion is currently taking place. I will report the results of the work in my 2010/11 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2011. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.

5 My audit approach is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

6 The ISAs were revised in 2009 as part of the Clarity Project and the new approach applies to your 2010/11 audit. As a result there will be some changes to the audit approach this year. The main changes relate to:

- the concept of materiality;
- audit testing;
- the IT control environment;
- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

More details are set out in appendix 1 of this progress report.

7 I have agreed with officers that my team will take a different approach to the delivery of the audit of the 2010/11 financial statements. I intend to deliver my work in a shorter period of time using a larger audit team. It is my intention that the majority of my post-statement work will be delivered during July 2011. This type of approach has benefits for both officers and my team, but will require some revision to working methods.

VFM conclusion

8 I assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

9 From 2010/11, the Commission has introduced new requirements for VFM audit work at local authorities. Auditors will give their statutory VFM conclusion based on the following two criteria specified by the Commission:

Table 2: **Specified criteria for the auditor’s VFM conclusion:**

Criteria 1	Criteria 2
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of criteria for 2010/11:	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

10 Detailed work to inform the 2010/11 VFM conclusion is currently taking place.

Audit Commission publications

In this section I summarise recent Audit Commission publications and tools. If you require more information please contact the local audit team.

Against the odds: Re-engaging young people in education, employment or training (November 2010)

11 This report is directed at Children's Trusts and is included here to assist the Council and its partners improve services for young adults.

12 Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. This new study looks at the financial, personal and social cost of teenagers who are so-called NEET - not in education, employment or training. The study has found that the problem may be worse than the annual 'snapshot' survey shows, but that a new approach can make scarce resources work harder for those at greatest risk.

13 The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.

Financial management of personal budgets: Challenges and opportunities for councils (October 2010)

14 Councils are undergoing a major transition from being providers of adult social care services to becoming providers of personal budgets. The latest Audit Commission report, Financial Management of Personal Budgets, highlights how some councils will need to make a significant effort to achieve the milestones agreed by the Department of Health, Association of Directors of Adult Social Services and the Local Government Association in 2009.

15 The report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

16 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment

checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

Countdown to IFRS - final briefing paper (March 2011)

17 The Commission has published the final briefing paper in its Countdown to IFRS series, reporting on findings from a January 2011 auditor survey on implementation of IFRS in local government.

18 The briefing paper covers IFRS implementation in councils, police authorities and fire and rescue authorities.

19 In this paper the Commission:

- makes comparisons with an overall assessment taken in November 2009 and July 2010;
- looks at how far authorities have progressed with key steps such as the restatement of 2009/10 accounts;
- highlights the technical aspects of financial reporting that have raised issues for authorities; and
- sets out key actions for authorities at this stage.

20 The overall message is that even those authorities with issues to resolve still have time to implement IFRS successfully, if they take appropriate action. However, they need to act now, as problems that arise later in the final accounts period may lead to added costs for the authority or material errors in draft accounts.

21 We suggest the following actions for authorities at this stage. Authorities should:

- complete any key outstanding IFRS implementation tasks, such as restatement work, without further delay;
- integrate any remaining tasks into their accounts closedown timetable;
- leave enough time to prepare the increased number of IFRS disclosures and to resolve any remaining financial reporting issues;
- ensure their accounts closedown timetable is realistic, building in enough time and staff resource to deal with issues that will inevitably arise during the closedown period;
- keep their auditors informed on their progress in resolving IFRS financial reporting issues and seek to agree time in advance to review work as they enter the closedown period;
- continue to discuss progress of IFRS implementation with their audit committees; and
- take steps now to ensure that IFRS knowledge and skills are captured and embedded, to enable good financial reporting in future years.

Contacts

The key members of the audit team for the 2010/11 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 e-mail: helen-thompson@audit-commission.gov.uk
Audit Manager	Simon Mathers	Tel: 0844 798 1776 e-mail: s-mathers@audit-commission.gov.uk
Co-Team Leader	Jeremy Jacobs	Tel: 0844 798 6121 e-mail: j-jacobs@audit-commission.gov.uk
Co-Team Leader	Jessica Grange	Tel: 0844 798 6116 e-mail: j-grange@audit-commission.gov.uk

Appendix 1 Changes to the 2010/11 audit approach arising from clarified International Standards on Auditing

Changes you can expect to see

22 As your appointed auditor, the audit of the financial statements I deliver is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

23 All guidance and frameworks are updated. In 2009 the auditing profession completed a project to enhance the clarity of all the ISAs. This is known as the Clarity Project.

24 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and making them easier to read and understand.

25 The new clearer IFA framework will apply to my audit of your 2010/11 financial statements. There will be some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to tell you the main changes and how they will impact on you.

26 The main changes relate to:

- our concept of materiality;
- the amount of audit testing we must undertake;
- how we audit the IT control environment;
- the level of audit work on journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

Performance materiality

27 A new concept of performance materiality is used at the planning stage to identify material audit items and risks of material misstatement. This is in addition to the headline materiality limit. Performance materiality is set at a lower level than headline materiality. The range is 70-90%. This change may increase the number of material information systems identified or the number of audit risks identified.

Audit testing

28 ISA (UK&I) 330 requires auditors to undertake some substantive procedures on all material entries in the financial statements. This applies irrespective of whether controls assurance is being obtained. Auditors are still required to obtain controls assurance as this is often the most efficient way of gaining audit assurance. In addition auditors have to carry out some substantive work on all material figures in the accounts.

29 There are also some changes to the sampling formula used. The lower performance materiality is used in the formula as are new risk factors. The impact is that testing samples sizes will increase.

IT Control environment

30 The audit work required to evaluate the IT control environment is more detailed and must be carried out by specially trained IT auditors. In addition to understanding the IT systems and policies in place, auditors need to test the operation of the relevant controls. Auditors will need to ask you for added information and carry out added audit work in this area.

Journals

31 ISA (UK&I) 330 (the auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using computer interrogation tools such as IDEA software or excel, depending on the compatibility of your general ledger software. I will discuss a suitable approach to this work soon.

Related Party Transactions

32 ISA (UK&I) 550 (related parties) requires me to review your procedures for identifying related party transactions. I need to understand the controls that you have in place to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions. I will also need to carry out audit work to assure myself that all related party transactions are set out in the financial statements.

Accounting Estimates

33 ISA (UK&I) 540 (auditing accounting estimates, including fair value accounting estimates, and related disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;

- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

34 ISA (UK&I) 265 (communicating deficiencies in internal control to those charged with governance and management) is a new standard.

35 If I identify a deficiency in any of your internal controls during the audit, I will need to carry out further audit testing to understand whether the error is significant. If I decide it is significant, I will report it in writing to your Audit Committee as those charged with governance.

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