

Progress report and briefing

April 2012

Brighton and Hove City 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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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.

2011/12 audit

Financial statements

3 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 2012	Complete. I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.
Audit Commission controls testing. Review of Internal Audit controls testing.	April 2012	I have liaised with Internal Audit to plan my detailed testing of controls in your key financial systems. Work has been undertaken by Internal Audit which I am able to rely on. A small amount of controls testing work remains ongoing. I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.

Work flow	Date of completion	Reports/Progress
Post statement audit and financial statements opinion.	By 30 September 2012	<p>As in 2010/11, 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 2012. This approach in general worked well last year and has benefits both for officers and my team.</p> <p>The main delay in delivering my post-statement audit last year was caused by difficulties in testing detailed transactions produced by your payroll system. I reported in my last update that I planned to undertake this work early in the audit cycle and before you have produced your 2011/12 financial statements. This work is now almost complete. I will update you verbally on progress at the Committee.</p> <p>The results of my work on the 2011/12 financial statements will be reported in my annual governance report which I will present to the September 2012 Audit Committee meeting.</p>
Value for money (VFM) work.	By 30 September 2012	<p>I will report the results of my detailed work to inform the 2011/12 VFM conclusion in my 2011/12 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2012. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.</p>

VFM conclusion

4 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 conclusion.

5 From 2010/11, the Commission introduced new requirements for VFM audit work at local authorities. Auditors 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 2011/12	
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.

6 Details of the work I intend to undertake to inform the 2011/12 VFM conclusion are set out in my 2010/11 audit plan which I am presenting to this April meeting of the Audit Committee.

Other matters

Outsourcing of the Audit Practice

7 The Audit Commission's Managing Director, Audit Policy wrote to you 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.

8 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms. Note that the Council is in the South East contract area which will be audited by Ernst & Young.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst & Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West

Firm	Contract areas
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure 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 ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission will then write to all audited bodies on or shortly after 23 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 is arranging a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is 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.

9 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.

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

11 Further details can be found on the Commission’s website at <http://www.audit-commission.gov.uk/pressoffice/pressreleases/Pages/reduce-audit-fees-by-40-percent.aspx>

I will continue to keep you updated on developments.

12 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; and
- managing a smooth transition from the Audit Practice to your new audit provider.

Government response to consultation on the future of local public audit

13 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.

14 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 paragraphs 7 to 12 above). The government envisages the retention of the Audit Commission as a small residuary body, to oversee the contracts and to make any necessary changes to individual audit appointments.

15 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.

16 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.

17 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 Spring 2012.

18 Further information on the government response to consultation on the future of local public audit can be found on the Department for Communities and Local Government's website at

<http://communities.gov.uk/publications/localgovernment/localauditgovresponse>

19 The website also includes the most recent statement on the future of local public audit at

<http://www.communities.gov.uk/news/localgovernment/2060732>

Annual fraud and corruption survey 2011/12

20 On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

21 The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

22 The Audit Commission is currently consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

23 The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

24 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For you this is £3,650.

25 The consultation will close on 23 March 2012 and the final work programme and scales of fees will be published in May 2012. A copy of the consultation can be found at <http://www.audit-commission.gov.uk/fraud/nfi/public-sector/pages/fees.aspx>

Local government capital finance system

26 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.

27 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. A copy of the consultation response can be found at <http://www.communities.gov.uk/publications/localgovernment/capitalfinance/summaryresponses>

A copy of the regulations can be found at

<http://www.legislation.gov.uk/ukxi/2012/265/introduction/made>

28 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.

A copy of DCLG's commentary can be found at

<http://www.communities.gov.uk/publications/localgovernment/capitalfinance/amend2012265>

29 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision (MRP). 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. A copy of the updated guidance on MRP can be found at

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/capitalfinance/capfinguidconsultdocs/?view=Standard>

Openness and accountability in local pay

30 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act. A copy of the guidance can be found at

<http://www.communities.gov.uk/publications/localgovernment/guidancelocalpay>

31 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 and its lowest paid employees.

32 The statement must be:

- approved by full Council, or a meeting of members in the case of a Fire and Rescue Authority; and
- published on its website.

Accounting for HRA Self Financing

33 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. A copy of the guidance can be found at

http://www.cipfa.org.uk/pt/pt_details_1.cfm?news_id=61673

34 Note that I am treating the impact of the move to HRA self-financing as a specific risk to my audit of your 2011/12 financial statements. More details can be found in my 2011/12 audit plan which I am presenting to this April meeting of the Audit Committee.

Contacts

35 The key members of the audit team for the 2011/12 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 helen-thompson@audit-commission.gov.uk
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- any third party.



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