

Audit **Committee** **update**

Stockton on Tees Borough 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 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) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Mark Kirkham
District Auditor
June 2012

Progress report

Financial statements

5 We have completed our systems walk through testing and testing of material controls in the key financial systems. There are no issues to bring to your attention. We have relied on Internal Audit wherever possible to inform our work on the financial systems.

6 We will start our work on the financial statements at the end of the month.

VFM conclusion

7 We have completed most of our work on the value for money conclusion focussing on the two criteria:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

8 The Council continues to manage it's budget and update the medium term financial plan to reflect ongoing developments in funding and changes to service provision.

9 There are no issues to bring to your attention.

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 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
Mazars	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.
- The Commission Board confirmed the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission then wrote 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 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. 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. The Audit Committee Chair and Head of Internal Audit attended a meeting with Mazars on 16 May 2012.

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

Annual fraud and corruption survey 2011/12

16 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.

17 The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

18 The Audit Commission consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI) in May and published the final version in May 2012.

19 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.

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

Local government capital finance system

21 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.

22 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.

23 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

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

25 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.

26 The statement must be:

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

Key considerations

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

- Has the Council completed the Audit Commission's annual fraud and corruption survey?
- Has the Council considered the implications of the amendments to the capital financing regulations?
- Has the Council made arrangements for the preparation, approval and publication of a pay policy statement?

Contact details

28 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.

29 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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- any director/member or officer in their individual capacity; or
- any third party.



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