

Stockton-on-Tees Borough
Council

Audit Progress report

February 2013

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1. Introduction

The purpose of this paper is to update the Audit Committee on my progress in meeting my responsibilities as your external auditor. I also include in this paper key emerging national issues and developments which may be of interest to members of the Audit Committee.

If you require any additional information please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note the website address (www.mazars.co.uk) which sets out the range of work Mazars carries out across the UK public sector. It also details the full extent of services Mazars provides within the UK and abroad.

2. Progress on the audit

The planning element of my audit covers a wide range of audit work. In addition to planning meetings with senior officers and within the audit team, we also:

- complete walkthrough tests of your key financial systems to confirm our understanding of how they operate and to assess risks of misstatement in your financial statements;
- determine what work we will need to complete to discharge our responsibilities in respect of my value for money conclusion; and
- review your prior year financial statements with a view to identifying any areas which may be at risk of material misstatement in the current audit year.

My team has completed most of this initial planning work. We recently wrote to the Audit Committee Chair and the Corporate Director of Resources about arrangements in place for:

- preventing and detecting fraud;
- ensuring the legality of transactions and identifying potential litigation;
- adopting the going concern principal for the accounts;
- related party transactions and relationships; and
- accounting estimates.

The Audit Commission published updated value for money conclusion guidance for auditors, and we have considered that guidance as part of our updated risk assessment. The specified criteria for the 2012/13 assessment are unchanged and focus on:

- financial resilience; and
- challenging economy, efficiency and effectiveness.

On 19 December I issued the 2012/13 fee letter. I will present the Audit Strategy Memorandum (the primary output of the planning process described above) to the Audit Committee on 25 February. This sets out the risks I have identified for the audit for both the opinion on the financial statements and the value for money conclusion, and my approach to the audit.

I have also issued the annual report on the audit of your grant claims and returns for 2011/12 and this is also on the agenda for this meeting.

3. National publications, events and other updates

Forthcoming events

During February 2013 Mazars will provide workshops for public sector finance staff on key 2012/13 accounting issues and your finance team have been invited to the local government workshops. This forms part of our commitment to ensuring a successful and smooth audit.

Localisation of business rates publication (CLG, November 2012)

Following consultation DCLG published details of the localisation of business rates. Local government will retain a 50 per cent local share of business rates and then keep a 50 per cent share of any growth generated, subject to a levy – which will be a maximum of 50p in the pound. DCLG also confirm that the safety net for when councils experience unexpected drops in revenue will guarantee a real terms income from business rates of 92.5 per cent. This means council income should not fall below 7.5 per cent of its baseline funding level ensuring no area gets left behind. There is a plain English guide available in addition to the policy statement itself.

<https://www.gov.uk/government/news/greater-rewards-for-local-growth-under-new-scheme>

Localising Council Tax support

The Local Government Finance Act which gained Royal assent in October 2012, allows local councils in England to design their own council tax support schemes from April 2013.

Tough times report (Audit Commission, November 2012)

These are challenging and uncertain times for councils as they cope with the second year of the four-year Spending Review. The savings needed are lower in 2012/13 than in 2011/12, but the cumulative effect is significant for many. The report finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible. A sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver their budgets. The report says that auditors are concerned that 12 per cent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 per cent will cope in 2012/13, but may struggle in the remaining years of the Spending Review period. The report is the second in the Commission's Tough Times series.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes2012.aspx>

Protecting the Public Purse (Audit Commission, November 2012)

This report finds that councils are targeting their investigative resources more efficiently and effectively, detecting more than 124,000 cases of fraud in 2011/12 totalling £179 million. It urges them not to drop their guard, as new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report gives the results of the Audit Commission's annual survey of English councils. It says that, despite these detection rates, more can still be done. The National Fraud Authority (NFA) estimates that the total amount of fraud in the UK costs every adult in the country about £1,460 a year. Fraud targeting just local government exceeds £2.2 billion per year.

The report contains an updated checklist which also gives organisations an opportunity to consider how effective they are at responding to the risk of fraud.

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/protecting-the-public-purse-2012.aspx>

Striking a balance, improving councils' decision making on reserves (Audit Commission, December 2012)

This Audit Commission report found that English councils held £12.9 billion in their reserves at 31 March 2012, and that reserves have increased by 38% in real terms since 2006/07. The Commission has called on councils to improve their decision making around reserves. Given the sums involved, and the current financial challenges, councils should focus more attention on their reserves and the purposes for which they are held. All councils should ensure that their decisions have been clearly explained to tax payers and service users.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/Strikingabalance.aspx>

Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting (Audit Commission, December 2012)

This Audit Commission report summarises the financial reporting outcomes for local authorities and other bodies within its regime. Audit opinions were issued at 98% of councils by 30 September 2012. The report names authorities which published their accounts early and also names those where there were delays or non standard wording to the auditor's report.

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/pages/auditing-the-accounts-1112.aspx>

Consultation on 2013/14 audit fees and work programme (Audit Commission, December 2012)

The Audit Commission has proposed that the 2013/14 work programme will be unchanged and that the scale fees will therefore be unchanged from the 2012/13 fees.

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314fees/Pages/201314feesandworkprogramme.aspx>

4. Contact details

If you would like further information on any items in this briefing, please contact me or the Senior Manager.

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