

External Audit

Progress

Report

Uttlesford District 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 Performance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors as at 3 May 2012. It also includes an update on the externalisation of the Audit Practice.
- 2 This paper seeks to highlight key emerging national issues and developments which may be of interest to members of the Performance and Audit Committee.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager, Emma Patchett, 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.

Debbie Hanson

District Auditor

3 May 2012

2011/12 audit progress

Audit output	Timescale in plan	Status	Comments on current position
Audit plan	January 2012	Complete	Our 2011/12 Audit Plan is complete and has been agreed with the Council. A copy of this Plan was presented to the February Performance and Audit Committee.
Pre-statement audit	January to April 2012	Complete	<p>The pre-statement audit is complete. During this phase of our work we documented the systems that have a material impact upon the financial statements and tested the controls within those systems. We relied upon the work of Internal Audit where ever possible. No matters have arisen that we wish to report to you.</p> <p>During our pre-statement audit, we also undertook an IT risk assessment to assess your IT environment. This concluded that the IT environment is sound and that there is a low risk of material misstatement to the financial statements from your IT controls.</p>

Audit output	Timescale in plan	Status	Comments on current position
Annual governance report	September 2012	Not yet due	
Opinion on the financial statements and value for money conclusion	September 2012	Not yet due	
Final accounts memorandum (to the Chief Finance Officer)	November 2012	Not yet due	This will only be issued if required.
Grant claims report	October 2012	Not yet due	
Annual audit letter	October 2012	Not yet due	

Other matters of interest

Government response to consultation on the future of local public audit

5 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.

6 In March 2012, the Audit Commission 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.

7 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.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- 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.

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

9 Further information can be found at:

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

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
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 will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published its final scales fees for 2012/13 in April 2012. These can be found on the Audit Commission's website, and further details for Uttlesford are set out below.
- The Commission has recently 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 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 has arranged 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. The meeting for the Eastern region was held on 14 May.

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 – 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.

2012/13 scales of fees

16 The Commission consulted on proposals for 2012/13 scales of fees for local government bodies in September 2011. These proposals were for a reduction of 10 per cent in the audit fees applicable in 2011/12, subject to the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice.

17 The Commission recognises that all public bodies are operating under financial pressures. In setting out proposed fees from 2012/13, it has been careful to set fees to reflect what it considers to be the minimum work necessary for auditors to satisfy their statutory responsibilities under the Audit Commission Act 1998 and the Code of Audit Practice.

18 The Commission published the final work programme and scales of fees for 2012/13 in April 2012, following the conclusion of the exercise to outsource the work of the Audit Practice. As a result of the savings achieved from the procurement exercise and the Commission's own internal efficiencies, the scales of fees for local authorities will now be reduced by 40 per cent for 2012/12.

19 The Commission is also reducing certification fees from 2012/13 by 40 per cent, replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on the latest actual certification fees for 2010/11

20 The scale fee for Uttlesford for the 2012/13 audit are set out below:

2012/13 fee	£69,654
2011/12 fee	£116,090
Reduction	£46,436

Annual fraud and corruption survey 2011/12

21 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.

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

National Fraud Initiative consultation

23 The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

24 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.

25 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 Uttlesford District Council this is £2,100.

26 The final work programme and scales of fees will be published in May 2012.

Local government capital finance system

27 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.

28 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which came into force on 31 March and 1 April 2012, have been laid before Parliament.

29 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.

30 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. 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.

Openness and accountability in local pay

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

32 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.

33 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

34 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.

Key considerations

35 The Performance and Audit Committee may wish to consider the following for the issues highlighted in this briefing paper:

- Has the Authority completed the Audit Commission's annual fraud and corruption survey?
- Has the Authority considered the implications of the amendments to the capital financing regulations?

Contact details

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

37 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Debbie Hanson

District Auditor

0844 798 5816

d-hanson@audit-commission.gov.uk

or

Emma Patchett

Audit Manager

0844 798 5819

e-patchett@audit-commission.gov.uk

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- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946