

Agenda Item No: 9
Report To: **AUDIT COMMITTEE**



Date: **25 June 2012**

Report Title: **External Auditor's Update**

Report Author: Debbie Moorhouse, Audit Manager, Audit Commission
Paul Naylor, Deputy Chief Executive (covering summary)

Summary: The external auditor's report (from the Audit Commission) provides information about its audit work over the past year, the progress with the outsourcing of its work to the private sector, and a number of matters of other relevance and interest.

Further background

a) 2011/2012 financial statements

These are being finalised by the Finance Manager for sign-off by myself, as Section 151 Officer, by the end of June (regulations now require members' approval post audit of the accounts). The Audit Committee will receive the accounts and the audit opinion for approval at its September meeting.

b) Outsourcing of the Audit Commission

As explained in the auditor's report the council had the opportunity of meeting the proposed new external auditor (Grant Thornton UK) in May. Through the chairman the council has responded to the consultation, stating there are no reasons for the council to object to the proposed appointment – see attached letter. We look forward to meeting the 'new' team in October or November, though we are pleased that most of the current audit team will continue to provide the audit service for at least the next year.

Fees for the next five years are effectively fixed and achieve a 40% reduction on budgeted costs.

c) Capital Finance system proposed changes

Officers will report the implications of changes to regulations to the next meeting of the committee.

d) Pay policy statement

As required by regulations the cabinet approved a pay policy statement for 2012/2013 in March, following recommendations by the Head of Personnel and Development after work completed by a mini-PAG on this issue.

Key Decision: No

Affected Wards: None specifically

Recommendations: **The Audit Committee is asked to note the external auditor's update.**

Policy Overview: The work of the external auditor is a statutory requirement and provides comment and assurance on matters of financial governance and internal control to the council.

Financial Implications: None specifically arising from this report. However, members are asked to note the 40% fee reduction arising from the outsourcing of the commission's work.

Other Material Implications: None

Contacts: Paul.naylor@ashford.gov.uk – Tel: (01233) 330436

Audit Committee update

Ashford Borough Council

May 2012

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.

Contents

Introduction	2
Progress report	3
2011/12 audit	3
Update on the externalisation of the Audit Practice	4
Other matters of interest	5
Annual fraud and corruption survey 2011/12	5
National Fraud Initiative consultation	5
Accounting for HRA Self Financing	6
Openness and accountability in local pay	6
Contact details	7

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.

Andy Mack

District Auditor

23 May 2012

Progress report

2011/12 audit

5 In our March 2012 audit progress update, we set out our audit approach to our work in respect of the financial statements, VFM conclusion and grant certification.

6 Further detail of our risk assessment is included in the 2011/12 audit plan, presented to the March 2012 committee.

7 As part of our pre-statements work we have assessed the control environment operating at the Authority and conclude good arrangements are in place. We have not identified any issues to report to the Audit Committee.

8 We have also documented and walked through the following material information systems operated at the Authority:

- General Ledger;
- Purchase Ledger;
- Sales Ledger;
- Capital Accounting;
- Payroll;
- Treasury Management;
- Housing Rents;
- Housing Benefits;
- Council Tax and NNDR; and
- Car Parking income.

9 We have considered the design and operation of key controls and concluded they are appropriate.

10 Before our post-statement audit visit in July 2012, we will be finalising our controls and early substantive testing.

Update on the externalisation of the Audit Practice

11 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.

12 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 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 wrote 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 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.

13 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.

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

15 Further details are available on the Commission's website. We will continue to keep you updated on developments.

16 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

17 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.

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

National Fraud Initiative consultation

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

20 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.

21 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.

22 The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

Local government capital finance system

23 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.

24 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.

25 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.

26 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.

Accounting for HRA Self Financing

27 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.

Openness and accountability in local pay

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

29 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?

30 The statement must be:

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

Contact details

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

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

Andy Mack

District Auditor

07765 898682

a-mack@audit-commission.gov.uk

Deborah Moorhouse

Audit Manager

07971 608125

d-moorhouse@audit-commission.gov.uk

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- 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

Councillor Paul Clokie

Ask For: Paul Clokie
Email: paul.clokie@ashford.gov.uk
Direct Line: (01233) 330436



ASHFORD
BOROUGH COUNCIL

Civic Centre
Tannery Lane
Ashford
Kent TN23 1PL
(01233) 331111
Typetalk (01233) 330744
www.ashford.gov.uk
DX 151140 Ashford (Kent) 7

Marcine Waterman
Director, Audit Policy and Regulation
Audit Commission
1st Floor, Millbank Tower, Millbank
London
SW1P 4HQ

Date: 11 May 2012

Dear Marcine

CONSULTATION ON AUDITOR APPOINTMENT

As chairman of the council's Audit Committee I am writing in response to your letter of 16 April to the chief executive explaining your proposals for auditor appointments. I have received a full briefing from officers.

Although the council would have much preferred to have reached its own decision about appointing its external auditor, it understands that opportunity will come later now legislation is programmed. However, the council has no reason not to accept the recommendation and has nothing to draw to the Commission's attention that would affect independence.

The council looks forward to working with Grant Thornton later in the year and in this respect I thank the Commission and Grant Thornton UK for the opportunity for the council's senior officers to attend the recent introductory meeting.

Yours sincerely

A handwritten signature in black ink that reads 'Paul Clokie'.

Councillor Paul Clokie
Chairman of the Audit Committee