

Audit Commission Progress Report

Oxford City Council
Date **March 2012**



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Status of our reports

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.

Introduction

1 My principal objective as the Council's appointed auditor is to carry out an audit which meets the Audit Commission's Code of Audit Practice. This report sets out the progress I have made in delivering my work.

2 My audit plan sets our work based on the Audit Commission's risk-based approach to audit planning. It reflects:

- Audit and inspection work specified by the Audit Commission;
- Current national risks relevant to your local circumstances; and
- Your local risks and improvement priorities.

Our responsibilities

3 In carrying out audit work, we comply with the statutory requirements governing it, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice (the Code).

4 My audit plan is consistent with the Commission's Strategic Plan.

5 The new Audit Commission Code came into effect from March 2010 which sets out my principal objectives are to report on the Council's:

- financial statements; and
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

2011/12 audit work

6 I am currently completing my interim and early testing. No significant issues have been identified that require reporting to the Committee. I am currently discussing my findings with management and will bring agreed findings and recommendations to the next Audit and Governance Committee meeting.

Audit Commission updates

The Commission produces regular updates of issues for auditors to bring to the attention of those charged with governance. These focus on specific developments that could have an impact on the Council's activities and so the following are areas that may be of interest to Committee members.

Government response to consultation on the future of local public audit

7 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.

8 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 '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.

9 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.

10 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.

11 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.

Update on the externalisation of the Audit Practice

12 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.

13 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.
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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)

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- 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 intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board will confirm the '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.

14 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.

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

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

17 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.

Annual fraud and corruption survey 2011/12

18 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.

19 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

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

21 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.

22 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.

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

Local government capital finance system

24 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.

25 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.

26 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.

27 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

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

Accounting for HRA Self Financing

31 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

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

33 Has the Council completed the Audit Commission's annual fraud and corruption survey?

34 Has the Council considered the implications of the amendments to the capital financing regulations?

35 Has the Council considered the guidance from CIPFA regarding the settlement payment to the Secretary of State in preparation for the commencement of self-financing of the HRA?

Appendix 1 Planned outputs

Audit Plan	Work carried out	Lead officer	Status	Start date	Draft report date	Final report date
2011/12 Audit						
Audit Fee Letter	Sets out audit fee.	Chief Executive	Complete	March 2011	March 2011	26 April 2011
Audit Opinion Plan	Provides detail of our opinion work.	Chief Executive and Corporate Director Finance & Efficiency	Presented to February 2012 Audit and Governance Committee meeting	December 2011	January 2012	January 2012
Opinion on accounts and VFM conclusion: <ul style="list-style-type: none"> interim visit IFRS restatement final accounts vfm conclusion 	Audit of financial statements leading to audit opinion and vfm conclusion.	Corporate Director Finance & Efficiency		January 2012	September 2012	
Whole of Government accounts	Audit of WGA data returns	Head of Finance		July 2012	September 2012	

Audit Plan	Work carried out	Lead officer	Status	Start date	Draft report date	Final report date
Annual Audit Letter 2011/12	Summary of the audit.	Chief Executive and Corporate Director Finance & Efficiency		September 2012	October 2012	

Grant claims 2011/12									
Grant claim	Details	Key contact	Progress	Council deadline provisional	Received from Council	Audit deadline provisional	Certified by Audit		
BEN01	Housing and Council Tax benefits	Pauline Hull		31 May 2012		30 November 2012			
HOU01	Housing Subsidy	Jane Rees		30 September 2012		31 December 2012			
HOU21	Disabled facility grant	Paul Swaffield/ John Exeley		June 2012		October 2012			
LA01	NNDR	Adrian Wood		June 2012		September 2012			
CFB06	Pooling of Housing Capital Receipts	Debbie Williams		June 2012		September 2012			

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