

Governance & **Audit** **Committee** **Update**

Portsmouth City 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.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Governance and 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.

Kate Handy

District Auditor

31 May 2012

Progress report

Financial statements

- 5** We have effectively completed our interim audit work programme and have not identified any control weaknesses that might lead to a material error going undetected. As such we can will place reliance on systems controls and reduce substantive testing on the financial statements.
- 6** The Council's finance team is currently preparing the 2011/12 financial statements and intend to produce a draft for audit by the June 30 deadline.
- 7** We have agreed, and the Council is soon to publish, the date on which electors can ask questions of the auditor. Between 18 July 2012 and 15 August 2012, any person may inspect the draft financial statements and certain related documents at the Civic Offices.
- 8** We plan to present our Annual Governance Report on 27 August 2012 and thereafter to give our opinions before the 30 September 2012 deadline.

VFM conclusion

- 9** Work is underway on all the identified risks:
- the transformation programme: interviews complete and awaiting sundry supporting evidence.
 - transfer of public health and wider NHS reforms: initial interviews held and documents reviewed but 3 follow up meetings scheduled.
 - finance and investment: interviews complete, some document review outstanding re linkages of revenue and capital programmes.
 - asset management; interviews complete.
 - senior management capacity: further discussions needed with Monitoring Officer and s.151 officer.

Other areas of work

- 10** Work has started on the Housing Benefit grant claim. We have received confirmation that the grants requiring certification for 2011/12 have been further reduced and we now anticipate work on only 5 claims:
- housing and council tax benefit;
 - pooling of Housing capital receipts;
 - HRA subsidy;
 - NNDR; and
 - teachers pensions.

Government response to consultation on the future of local public audit

11 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.

12 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.

13 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.

14 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.

15 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

16 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.

17 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 intends to publish 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 proposed, 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 between 30 April 2012 and 16 May 2012. 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.

18 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.

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

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

21 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – completing our 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

22 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.

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

National Fraud Initiative consultation

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

25 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.

26 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 Portsmouth City Council this is £3,650.

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

Local government capital finance system

28 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.

29 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.

30 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.

31 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

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

33 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.

34 The statement must be:

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

Accounting for HRA Self Financing

35 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

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

- Did the Council complete 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 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?

Contact details

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

38 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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