

Governance

Committee

update

South Ribble Borough Council

Audit 2012/13

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
Financial statements.....	3
VFM conclusion	3
Update on the externalisation of the Audit Practice.....	4
Government response to consultation on the future of local public audit... 	6

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 updates on the externalisation of the Audit Practice and the future of local public audit.
- 2** 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.
- 3** 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.

Fiona Blatcher
Senior Audit Manager

12 April 2012

Progress report

Financial statements

4 My team is currently in the process of updating our understanding of your key financial systems. We are also completing any controls and early substantive testing we can at this stage. There are no issues to report to you at this stage but if this changes we will update you in due course.

5 My team is also maintaining close liaison with the Council's finance team around technical issues, closedown timetable and audit requirements. The Audit Commission has run workshops for all local government bodies on key accounting issues for 2011/12 in January/February which were attended by a number of accountants from South Ribble. These activities minimise the likelihood of any unexpected significant accounting issues arising later on in the closedown or audit process.

6 There are no issues or new audit risks which I wish to bring to your attention.

VFM conclusion

7 Through meetings with key officers and review of relevant reports, my team and I are currently undertaking our work to support our VFM conclusion.

8 There are currently no issues or new audit risks which I wish to bring to your attention.

Update on the externalisation of the Audit Practice

9 On 6 March 2012 the Audit Commission confirmed the outcome of the procurement exercise to outsource the work currently undertaken by its Audit Practice. 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)

10 For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The event for the North West is on 1 May 2012.

11 Appointments will start on 1 September 2012. As such, the Audit Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. South Ribble Borough Council has already been consulted on this appointment and the appointment agreed.

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

13 Against this background, the Audit Practice's focus remains. This includes:

- fulfilling our remaining responsibilities by delivering your 2011/12 audit to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider.

14 Savings secured through the procurement, together with the benefits of the Commission's own cost reduction programme, will be passed back to local public bodies through significant reductions in scale of audit fees.

15 Following consultation, the work programme and fee scales for 2012/13 have been agreed for audits of local government. Letters notifying bodies of the new scale fees went out to all audited bodies on 11 April.

16 The fees are fixed for five years irrespective of inflation. For 2012/13 the South Ribble scale audit fee will be £57,664, compared to £96,106 in 2011/12. For my audit of your grant claims the previous schedule of hourly rates has been replaced by a composite indicative fee. For South Ribble the fee for certifying grant claims has been set at £12,100, compared to our fee of £20,057 in 2010/11.

Government response to consultation on the future of local public audit

17 In August 2010, the government announced its intention 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.

18 The Audit Commission recently awarded contracts for 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' above). 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.

19 Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term).
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- 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 right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

20 Government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships held events in January and February 2012 to which audited bodies were invited. The Government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Further information is available at:

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

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