

Progress Report

Salford 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 and Accounts 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 Audit and Accounts Committee. At the end of the paper we ask some questions which the Committee may wish to consider to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any more information on 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.

Mick Waite

District Auditor

March 2012

Progress Report

5 The Table below summarises the current status of the main pieces of work in our 2011/12 audit programme of work.

Planned work	Status	Position at March 2012
2011/12		
Interim review of material systems	In progress	<p>Our review of the Council's material financial systems is in progress. This is an important part of our programme, which we complete prior to receiving the financial statements. The focus of the work is on updating our understanding of the Council's material information systems.</p> <p>We will consider the findings from this work when planning the detailed approach to the testing on the financial statements.</p>
Value for money conclusion	In progress	<p>We have updated our VFM risk assessment for the 2011/12 audit and set out a local programme of work as informed by the specified criteria and our responsibilities under the Code.</p> <p>We have held discussions with Finance officers and agreed the main focus of work. The areas that we will examine include:</p> <ul style="list-style-type: none"> ■ Ongoing work to update the risk assessment covering areas such as: <ul style="list-style-type: none"> – effectiveness of the system of internal controls – robustness of risk management arrangements – assurance from the work of Internal Audit – use of financial ratio analysis tool and vfm profile tool data to examine costs and service delivery. ■ Local risk based work on: <ul style="list-style-type: none"> – ongoing monitoring of the budget position – examining medium term financial planning arrangements, including monitoring and reporting on the delivery of savings and addressing overspending in Children's Services – examining and assessing performance monitoring and reporting, including the impact on capacity and capability from staffing reductions.

Planned work	Status	Position at March 2012
		We will report the findings from our work within the Annual Governance Report.
Other areas of work: Certification of claims and returns – annual report 2010/11	Complete	Our certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. We have issued our annual report summarising the outcomes of this work on your 2010/11 claims and returns.

Other Matters of Interest

Government response to consultation on the future of local public audit

6 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.

7 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.

8 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.

9 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 the Clinical Commissioning Groups, and will specify the detailed arrangements for audit of local health bodies, under the new framework, in due course.

10 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.

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

Update on the externalisation of the Audit Practice

11 The Audit Commission's Managing Director, Audit Policy wrote to clients 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 local public 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 clients 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 clients 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 – 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

17 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.

18 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

19 The Audit Commission is currently consulting 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. For Salford City Council this is £4,000.

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

<http://www.audit-commission.gov.uk/fraud/nfi/public-sector/pages/fees.aspx>

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 reform only and impact from 2012/13. The changes to the guidance are to ensure that the authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

The consultation response is here

<http://www.communities.gov.uk/publications/localgovernment/capitalfinancesummaryresponses>

The regulations are here <http://www.legislation.gov.uk/ukxi/2012/265/introduction/made>

DCLG's commentary is here

<http://www.communities.gov.uk/publications/localgovernment/capitalfinanceamend2012265>

The MRP information is here

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/capitalfinance/capfinguidconsultdocs/?view=Standard>

Openness and accountability in local pay

27 On 17 February 2012 the Department for Communities and Local Government (DCLG) published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

28 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement which must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

29 The statement must be:

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

<http://www.communities.gov.uk/publications/localgovernment/guidancelocalpay>.

Accounting for HRA Self Financing

30 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.

http://www.cipfa.org.uk/pt/pt_details_l.cfm?news_id=61673

2010/11 Accounts

31 In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

32 The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

33 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

34 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

35 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

36 This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

37 While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

38 The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;
- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

39 The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

The Audit Commission is seeking views on the issues raised within the briefing and invited comments by 16 March 2012 - further information on this is available on the Audit Commission's website.

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/Pages/auditing-the-accounts-1011.aspx>

Managing Workforce Costs

40 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

41 The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

42 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

43 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in

government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

44 The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

45 The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

46 The questions are in two parts:

- the information that should be available to members about the workforce; and
- the savings strategies councils could follow in the light of that information.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/WorkinProgress.aspx>

Key Considerations

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

- Has the Council completed 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 from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account?
- Has the Council examined its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council circulated the Audit Commission briefing on managing workforce costs to elected members? Is the Audit and Accounts Committee satisfied that the issues raised in this have been properly considered by the Council?

Contact Details

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

49 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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