

6a

External audit

statement of

audit progress

Shropshire and Wrekin Fire and Rescue Authority

March 2012

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.

Contents

Audit update	2
Introduction	2
Audit coverage and inputs	2
Conclusion	4
Other matters of interest	5
Government response to consultation on the future of local public audit	5
Update on the externalisation of the Audit Practice	6
2010/11 Accounts - Audit Commission Report	7
Managing Workforce Costs	8
CIPFA's Prudential Code for Capital Finance	9
2011/12 Accounts: CIPFA Guidance Notes for Practitioners	9
Fire and Rescue National Framework	9
Local Government Finance Bill	10
Procurement Fraud in the Public Sector	10
Board Governance Essentials	11
Key considerations	12
Appendix 1 2011/12 programme	13

Audit update

Introduction

1 The purpose of this paper is to provide the Audit & Performance Management Committee with a report on progress in delivering our responsibilities as the Authority's external auditor. This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.

2 At the end of this update there are a number of questions which the Committee may wish to consider in order to ensure that it is receiving sufficient assurance on the emerging issues.

Audit coverage and inputs

Opinion Audit for 2011/12

3 We have finalised our opinion testing strategy, detailed within our Audit Plan 2011/12 which is presented to this Committee meeting. Our work is progressing with all key financial systems now being walked through and controls tested where appropriate. We have also undertaken early substantive testing where possible and have planned some final substantive testing to be completed in March 2012 nearer to the year end. This should ensure that we are well placed to deliver the opinion within the timescale agreed.

4 We have updated our understanding of the control environment, excepting our work on the IT controls which is planned for late February, early March 2012. We have also documented our understanding of the financial environment which informs our assessment of your overall financial resilience.

5 We continue our discussions with the Authority and continue to agree the accounting treatment for areas such as the valuation of the St Michael Street Head Quarters building and reserves. The Authority has also been invited to both a regional final accounts workshop and also a sector specific workshop.

6 Our continuous audit planning has not identified any emerging risks which we are required to report to you, other than those set out on the Audit Plan. There is therefore no change to our proposed work programme. We continue to meet with Senior Management and review minutes. If any risks were identified, we would initially discuss with the Head of Finance, Treasurer and CFO, and then bring to your attention.

7 Our work on the financial systems has identified some weaknesses in key controls which we are required to bring to your attention. These weaknesses were also present in 2010/11 and discussions with the Authority has confirmed that they are aware of the weaknesses, but at this stage it is not efficient to put an additional control in place to address these. We accept this position and have devised substantive tests where appropriate to undertake to gain assurance, but are still required to bring these to your attention.

8 Our review of the sales ledger identified that there were two controls which we could not evidence. The Authority appears to not document the review of invoices received in finance for accuracy or occurrence. However, all other controls were found to be in place and we understand that whilst this control is not evidenced on the invoice, the review is undertaken by finance staff processing these invoices. The income received through the Sales Ledger in 2011/12 is not material to the financial statements and we have no reason to undertake any further work to provide ourselves with assurance on this balance. However, the Authority should consider evidencing their review of invoices to strengthen control arrangements in place.

9 Our review of the purchase ledger identified that, as in 2010/11, there was one control which did not operate as expected: that being the separation of duties between the ordering and receipting of goods and services. Due to the size of the organisation, the Authority has not put additional controls in place since this was previously reported in June 2011. We have agreed to undertake a substantive test to ascertain the appropriateness of ordering and receipting to ensure that all goods and services relate to the business of the Fire Authority and are reasonable. All other controls were found to be in place and we are not expecting a failure in this substantive test, based upon the findings from 2010/11.

10 Payroll existence testing uses the confirmation of nominal roles by budget holders or Managers from each department to verify those employees being paid. Last year we identified that this exercise occurs annually after the financial year end and that there were some departments who required chasing for their return. This year we have agreed with the Authority that it is more efficient to undertake a substantive test by verifying the existence of a sample of employees by phoning them. Whilst we accept that the Authority has a control in place, the administration of this control is high and assurance is obtained after the date of our audit. Other clients get around this by undertaking the exercise more frequently (twice or three times a year) which usually ensures confirmation on a rolling basis.

Value for money conclusion

11 Our work on the value for money conclusion is programmed for March 2012 to capture as much evidence from the 2011/12 as possible. Meetings with Senior officers are booked and our review of Fire Authority committee minutes has already started. Our initial planning has not identified any areas of weakness which we are required to bring to your attention as possible areas of concern. We will report to the next Audit & Performance Management Committee on our initial findings and continue to update our assessment prior to the opinion.

Working with Internal Audit

12 We continue to work with Internal Audit and have liaised briefly since the last meeting. Our discussions with Internal Audit confirm an efficient approach for the forthcoming audit year.

Conclusion

13 We are on target to deliver the audit plan for 2011/12 as set out in appendix 1.

Other matters of interest

Government response to consultation on the future of local public audit

14 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.

15 The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 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.

16 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.
- As fire authorities are not elected, an independent audit appointments panel with a majority of independent members will appoint the auditor. 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.

17 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Update on the externalisation of the Audit Practice

18 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

19 The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission is planning to set out, early in 2012, the consultation process to be followed for individual audit appointments. 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 events will take place in May 2012.

- Appointments will start on 1 September 2012. As such, the 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. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
 - 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. Against this background, the Audit Practice's focus remains.
- Fulfilling our remaining responsibilities 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.

2010/11 Accounts - Audit Commission Report

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

22 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.

23 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.

24 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year, to 18 this year, where the auditor's opinion was still outstanding after 31 October 2011. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

25 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'. 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. <http://www.audit-commission.gov.uk/audit-regime/support-guidance/Pages/ifrs.aspx>

26 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.

27 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.

28 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 has invited comments by 16 March 2012. Further information on this is available on the Audit Commission's website.

Managing Workforce Costs

29 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'. 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. <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/WorkinProgress.aspx>

30 The report is supported by a number of resources which Shropshire & Wrekin Fire and Rescue Authority may find helpful, including the following.

- 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.
- 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.

31 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 this may also be of some interest.

CIPFA's Prudential Code for Capital Finance

32 CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- the accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

33 Although authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

34 To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls. The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

2011/12 Accounts: CIPFA Guidance Notes for Practitioners

35 CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- related party disclosures;
- exit packages;
- financial instruments; and
- interests in joint ventures.

36 The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops.

Fire and Rescue National Framework

37 In December 2011 the government launched a consultation exercise seeking views on freeing fire and rescue authorities to tailor their services to meet local needs whilst meeting the wider needs of national resilience.

38 The priorities in the draft National Framework are for fire and rescue authorities to:

- identify and assess the full range of fire and rescue related risks their area faces, make provision for prevention and protection activities and to respond to incidents appropriately;
- work in partnership with their communities and a wide range of partners locally and nationally to deliver their service; and
- be accountable to communities for the service they provide.

39 The consultation exercise ends on 19 March 2012 and further information can be found on the DCLG website.

<http://www.communities.gov.uk/news/corporate/2050201>

Local Government Finance Bill

40 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

41 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

42 The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

Procurement Fraud in the Public Sector

43 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler. The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

44 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/procurement-fraud-public-sector>

Board Governance Essentials

45 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies. 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

46 This guide may provide interesting reading for all members.

Key considerations

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

- Has the Authority reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?
- Has the Authority reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Authority reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Authority circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit Committee satisfied that the questions within the briefing have been properly considered by the Authority?
- Has the Authority reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Authority reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?
- Has the DCLG's consultation on the Fire and Rescue National Framework been considered?
- Has the Authority considered the actions in the procurement fraud report and, where appropriate, developed an action plan to address any weaknesses?

Emily Mayne
Audit Manager

March 2012

Appendix 1 2011/12 programme

Programme	Progress	Main Conclusion/Findings	Deadline for draft report	Audit Committee meeting
Audit Plan				
Initial Fee Letter 2011/12	Completed	The indicative fee was agreed by the Chief Fire Officer in March 2011.	March 2011	March 2011
Audit Plan 2011/12	Completed	This has been agreed with the Treasurer and Head of Finance.	February 2012	March 2012
Opinion				
Interim work on arrangements to support the opinion	On-going	Initial work has been undertaken on your key financial systems. No significant weaknesses were identified and control weaknesses have been reported to Those Charged with Governance.	Report through Statements of Audit Progress	N/A
Annual Governance Report	Not started		September 2012	September 2012
VFM conclusion				
Assessment of the Council's performance against the Value for Money criteria informing the VFM conclusion	Not started		September 2012	September 2012
Annual Audit Letter				
Annual Audit Letter 2011/12	Not started		October 2012	November 2012

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

www.audit-commission.gov.uk

February 2012