

# Audit Committee update

Lancashire County 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. It includes an update on the future of local public audit and the externalisation of the Audit Practice.

**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](http://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.

Karen Murray

District Auditor / Engagement Lead

12 March 2012

# Progress report

## Financial statements

4 My team is updating our understanding of key financial systems and completing any controls and early substantive testing we can at this stage. We have had detailed discussions with Internal Audit, to maximise the reliance we place on their work. The Council's financial team is heavily involved in preparing to move to the upgraded ledger system in April. In recognition of the additional workloads involved I have delayed some of our planned audit work. However, I remain confident that all such work will be completed by the end of June 2012.

5 My team is 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 Lancashire CC. 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 reviewing the Council's arrangements and progress across those areas which I highlighted in my audit plan. Namely:

- Financial planning and delivery
- Waste Management financial pressures
- BT Partnership/One Connect Contract performance
- Treasury management.

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

## Other areas of work

9 My team has completed the audit and certification of two of the Council's grant claims for 2012. These were required to be submitted and certified earlier than usual due to the demise of the grant paying body, (the North West Development Agency). Both of these claims were certified without qualification and with only minor amendments. The impact of the amendments was to reduce the amount payable to Lancashire by £2,825. This followed identification of ineligible expenditure included in one of the returns.

# Government response to consultation on the future of local public audit

**10** 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.

**11** 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' 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.

**12** 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.

**13** 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>.

# Update on the externalisation of the Audit Practice

**14** The Audit Commission's Chief Executive, Eugene Sullivan, wrote to audited bodies 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.

**15** On 6 March 2012 the Audit Commission announced the award of contracts to four firms:

- **Grant Thornton (UK) LLP**, covering four contract areas for the North West, West Midlands, London (South) Surrey & Kent, and South West
- **KPMG LLP** covering three contract areas for Humberside & Yorkshire, East Midlands, and London (North)
- **Ernst & Young LLP** covering two contract areas in Eastern, and South East
- **DA Partnership Ltd** covering one contract area in the North East & North Yorkshire.

**16** The Audit Commission consulted the Department for Communities and Local Government (DCLG) on the length of contracts to be awarded. DCLG in turn consulted key stakeholders in the different sectors and across government. Ministers' preference, taking stakeholders' views into account, was for the Commission to award the contracts for five years, which the Board agreed at its February meeting.

**17** 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. The Audit Commission have already consulted on draft scales of fees which provided for a ten per cent reduction. They are now confident that fees can be reduced significantly further. The final scales of audit fees for 2012/13 will be published in April. 2012.

**18** The Commission is planning to set out shortly the consultation process to be followed for individual audit appointments. Where a body is currently audited by an auditor from the Commission's in-house Audit Practice, it 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. 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.



**19** 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. Lancashire County Council has already been consulted on this appointment and the appointment agreed.

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

**21** 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.

## Contact details

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

**23** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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- any third party.



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