

Audit Committee Progress and Update Report

Suffolk 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 externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the 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.

Neil A Harris

District Auditor

May 2012

Progress report

Financial statements opinion and VFM conclusion

5 The purpose of this section is to inform the Audit Committee of our progress in delivering our responsibilities as the Council's external auditor.

6 Table 1 provides commentary on the key stages for the 2011/12 financial statements audits of Suffolk County Council and Suffolk Pension Fund.

Table 1: **Progress on financial statements audit**

Stage	Date	Comment
Audit Fee Letters	Issued 20 April 2011	Audit Fees of £201,150 (Suffolk County Council) and £39,000 (Suffolk Pension Fund) reported to the Council.
Audit Opinion plans	April 2012	These will be presented to the May 2012 Audit Committee.
Pre-statement audit	From January to April 2012	We will report significant matters in our Annual Governance Report.
Post-statement audit	From June to September 2012	We will report significant matters in our Annual Governance Report.
Annual Governance Report	27 September 2012	We will report significant matters and our intended audit opinion and VFM conclusion in our Annual Governance Report at the September 2012 Audit Committee.

Stage	Date	Comment
Auditor's report giving the opinion on the financial statements and value for money conclusion and the Auditor's report on the Pension Fund Annual Report	By 28 September 2012	
Annual Audit Letter	By 31 October 2012	

Government response to consultation on the future of local public audit

7 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.

8 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.

9 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.

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.

Update on the externalisation of the Audit Practice

11 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.

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
Mazars DA	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 secured very competitive prices that will save local public bodies over £30 million a year for a minimum of five years; and the savings secured will be passed back to audited bodies through significant reductions in scales of audit fees.
- The Commission published the final scales of audit fees for 2012/13 on 11 April 2012. The scales of audit fees have been reduced by 40% in 2012/13 and are fixed for five years irrespective of inflation. The audit scale fee for Suffolk County Council for 2012/13 is £120,690 (2011/12: £201,150). The scales of audit fees for pension funds have yet to be published but it is expected that a reduction in the region of 40% will take place in 2012/13.
- The Commission Board has now confirmed the 'interim' auditor appointments for the first five months of 2012/13.

- The Commission wrote to all audited bodies on 23 April 2012 setting 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. For Eastern, the introductory meeting is taking place on 14 May 2012. The purpose of these meetings is 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.

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.

Other matters of interest

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 has recently consulted 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 Suffolk County Council this is £3,750.

22 The final work programme and scales of fees will be published in May 2012.

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.

Openness and accountability in local pay

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

27 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.

28 The statement must be:

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

Key considerations

29 The Audit 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?

Contact details

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

31 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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