

Audit Progress

Report

**Hampshire County Council and Hampshire Pension
Fund**

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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2011/12 Audit Plan

Table 1: **Position against 2011/12 audit plan**

Report	AC key contact	Council contact	Expected date of final report	Recipient	Date reported	Comment
Audit fee letter	Kate Handy	Chief Executive	April 2011	Letter to the Chief Executive	April 2011	The fee letter was sent to the Chief Executive and Chair of the Audit Committee in April 2011
Pension fund fee letter	Kate Handy	Chief Executive	April 2011	Letter to the Chief Executive	April 2011	The fee letter was sent to the Chief Executive and Chair of the Audit Committee in April 2011
Council - Detailed Plan	Hassan Rohimun	County Treasurer	March 2012	Audit Committee	March 2012	
Pension Fund - Detailed Plan	Hassan Rohimun	County Treasurer	March 2012	Audit Committee	March 2012	
Pre-statements audit memorandum	Hassan Rohimun	County Treasurer	March 2012	Report to officers	-	A report is not required as there were no issues identified during the pre-statement audit to report to officers.

Report	AC key contact	Council contact	Expected date of final report	Recipient	Date reported	Comment
Annual Governance Report (s) (ISA260)	Kate Handy	County Treasurer	September 2012	Audit Committee		Not yet due
County - Accounts opinion	Kate Handy	County Treasurer	September 2012	Audit Committee		Not yet due
Pension Fund - Accounts opinion	Kate Handy	County Treasurer	September 2012	Audit Committee		Not yet due
VFM conclusion	Kate Handy	County Treasurer	September 2012	Audit Committee		Not yet due
Final Accounts memorandum	Hassan Rohimun	County Treasurer	October 2012	Report to officers		Not yet due
Annual Audit Letter	Kate Handy	Chief Executive	October 2012	Audit Committee		Not yet due

Other matters of interest

Government response to consultation on the future of local public audit

1 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.

2 The Audit Commission recently announced the award of contracts to four firms 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, to oversee the contracts and to make any necessary changes to individual audit appointments.

3 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.
- 4 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

5 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's (DCLG) 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.

6 On the 5 March 2012 the Audit Commission announced the award of contracts to four firms for the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17.

7 The key points are as follows.

- Through the use of bulk purchasing power, the Commission was able to secure competitive prices that will save local public bodies over £30 million a year for a minimum of five years.
- DCLG were consulted 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 from 2012/13 to 2016/17.
- Ernst and Young won the contracts for the Eastern and South East areas. The South East covers Berkshire, Buckinghamshire, East Sussex, Hampshire and Isle of Wight, Oxfordshire and West Sussex.
- The Commission will be writing to all audited bodies on or shortly after 23 April to consult on proposals for 'permanent' auditor appointments for 2012/13 and subsequent years.
- The Commission will be arranging a series of introductory meetings 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. The meeting for the South East will be held on 2 May 2012.

8 Further details are available on the Commission's website. We will continue to keep you updated on developments.

9 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.

2010/11 Accounts

10 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.

11 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.

12 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.

13 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.

14 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 and focuses on a long-running debate of how to make local government accounts easier to understand.

15 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.

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

CIPFA's Prudential Code for Capital Finance

17 CIPFA has recently updated its Prudential Code (the 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.

18 Although local authorities determine their own capital programmes, they are required to have regard to the Code in order to ensure that these capital investment plans are affordable, prudent and sustainable. 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.

19 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

20 CIPFA has 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;
- community infrastructure levies;
- related party disclosures;
- exit packages; and
- financial instruments.

21 The key changes to the financial statements in 2011/12 were covered in our final accounts workshops for officers.

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- any third party.



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