

Progress report and briefing

December 2010

Brighton & Hove City Council

Audit 2010/11

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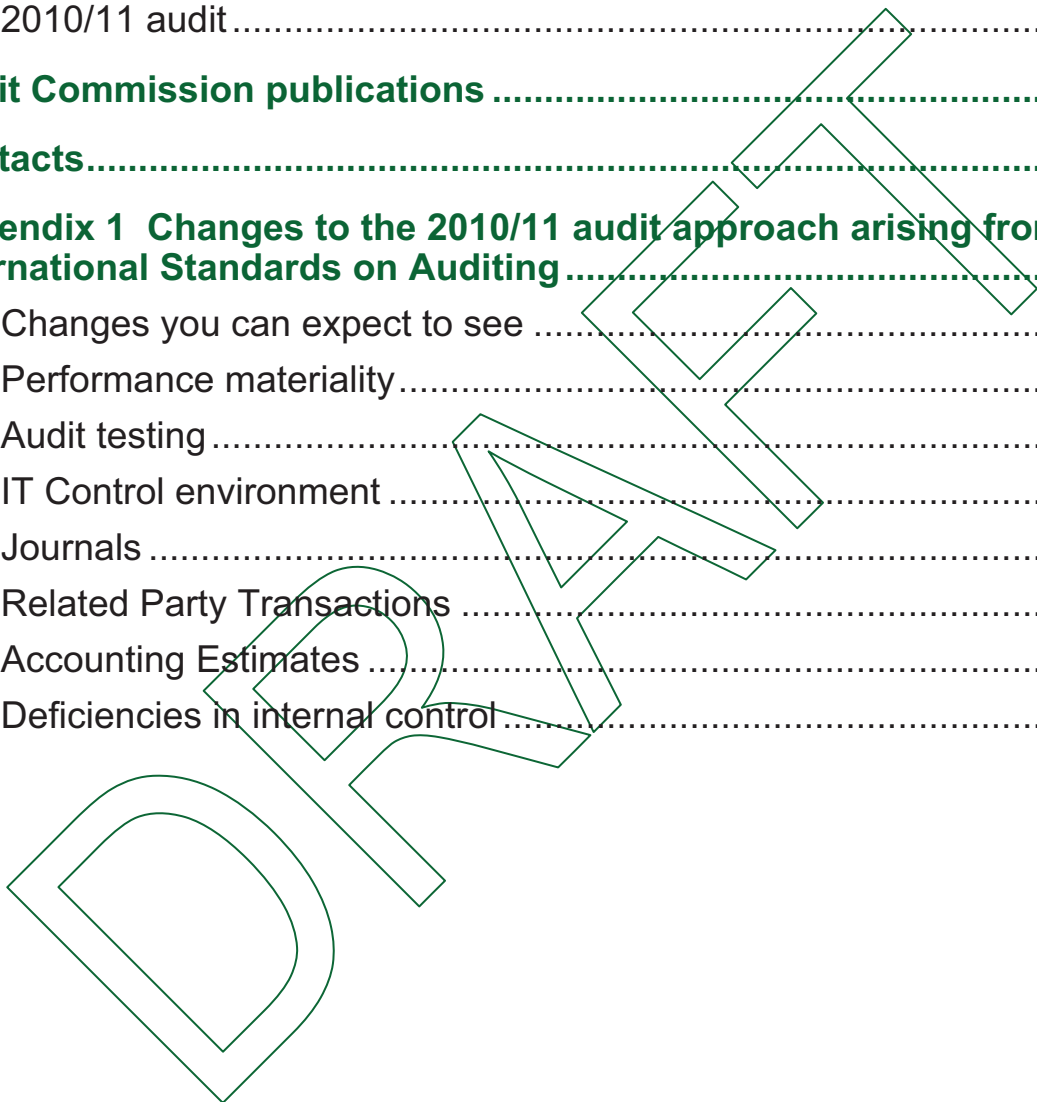
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Audit progress

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering my responsibilities as the Council's external auditor.

2 If you require any additional information regarding the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team using the contact details at the end of this update.

2009/10 audit

3 My work on the 2009/10 audit is now virtually complete. I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I am currently considering an objection made by a local elector to the Council's 2009/10 financial statements. I am, however, satisfied the matters raised do not have a material effect on the Council's accounts and I have therefore been able to issue the audit opinion.

2010/11 audit

Financial Statements

4 The proposed timing for my audit work is set out in table 1.

Table 1: **Audit time line**

Work Flow	Date of completion	Reports
Documentation and walkthrough of key financial systems	January 2011	None.
Review of 2010/11 re-stated IFRS accounts	February 2011	No specific report. I will draw any significant issues to your attention in my 2010/11 Audit Opinion Plan which I aim to present to the April 2011 Audit Committee meeting.

Work Flow	Date of completion	Reports
Audit Commission controls testing. Review of IA controls testing.	February/March 2010	I will draw control weaknesses to your attention in my 2010/11 Audit Opinion Plan which I aim to present to the April 2011 Audit Committee meeting. Recommendations for the improvement of internal control will be made in my 2010/11 annual governance report.
Post statement audit and financial statements opinion	by 30 September 2010	The results of my work on the 2010/11 financial statements will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.
VFM work	by 30 September 2010	The results of my work on the 2010/11 VFM conclusion work will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.

5 My audit approach is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

6 The ISAs were revised in 2009 as part of the Clarity Project and the new approach applies to your 2010/11 audit. As a result there will be some changes to the audit approach this year. The main changes relate to:

- the concept of materiality;
- audit testing;
- the IT control environment;
- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

More details are set out in appendix 1 of this progress report.

7 I have agreed with officers that my team will take a different approach to the delivery of the audit of the 2010/11 financial statements. I intend to deliver my work in a shorter period of time using a larger audit team. It is my intention that the majority of my post-statement work will be delivered during July 2011. This type of approach has benefits for both officers and my team, but will require some revision to working methods.

VFM conclusion

8 I assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

9 From 2010/11, the Commission has introduced new requirements for VFM audit work at local authorities. Auditors will give their statutory VFM conclusion based on the following two criteria specified by the Commission:

Table 2: **Specified criteria for the auditor’s VFM conclusion:**

Criteria 1	Criteria 2
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of criteria for 2010/11:	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

10 I am discussing with officers to agree the precise nature of the work I will undertake to discharge my responsibilities in this area.

Audit Commission publications

In this section I summarise recent Audit Commission publications and tools. If you require more information please contact the local audit team.

Against the odds: Re-engaging young people in education, employment or training (November 2010)

11 This report is directed at Children's Trusts and is included here to assist the Council and its partners improve services for young adults.

12 Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. This new study looks at the financial, personal and social cost of teenagers who are so-called NEET - not in education, employment or training. The study has found that the problem may be worse than the annual 'snapshot' survey shows, but that a new approach can make scarce resources work harder for those at greatest risk.

13 The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.

Financial management of personal budgets: Challenges and opportunities for councils (October 2010)

14 Councils are undergoing a major transition from being providers of adult social care services to becoming providers of personal budgets. The latest Audit Commission report, Financial Management of Personal Budgets, highlights how some councils will need to make a significant effort to achieve the milestones agreed by the Department of Health, Association of Directors of Adult Social Services and the Local Government Association in 2009.

15 The report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

16 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment

checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

Learning lessons from the audit of IFRS-compliant NHS accounts 2009/10 (September 2010)

17 On 9 September we published our briefing paper 'Learning lessons from the audit of IFRS-compliant NHS accounts 2009/10' ([AC external link](#)). It is included here to highlight potential issues for the Council as it moves towards the production of IFRS compliant accounts in 2010/11.

18 This briefing aims to support continuous improvement in financial reporting, and provide lessons for NHS bodies as well as help those in other sectors that are reporting under IFRS for the first time in 2010/11.

19 We found that:

- overall, NHS bodies coped well with producing their IFRS-compliant accounts for 2009/10;
- disclosures, property, plant and equipment issues, and accounting for leases were the most significant financial reporting issues; and
- most NHS bodies engaged effectively with auditors to resolve IFRS reporting issues.

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Contacts

The key members of the audit team for the 2010/11 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 e-mail: Helen-Thompson@audit-commission.gov.uk
Audit Manager	Simon Mathers	Tel: 0844 798 1776 e-mail: s-mathers@audit-commission.gov.uk
Co-Team Leader	Jeremy Jacobs	Tel: 0844 798 6121 e-mail: j-jacobs@audit-commission.gov.uk
Co-Team Leader	Jessica Grange	Tel: 0844 798 6116 e-mail: j-grange@audit-commission.gov.uk

Appendix 1 Changes to the 2010/11 audit approach arising from clarified International Standards on Auditing

Changes you can expect to see

20 As your appointed auditor, the audit of the financial statements I deliver is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

21 All guidance and frameworks are updated. In 2009 the auditing profession completed a project to enhance the clarity of all the ISAs. This is known as the Clarity Project.

22 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and making them easier to read and understand.

23 The new clearer IFA framework will apply to my audit of your 2010/11 financial statements. There will be some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to tell you the main changes and how they will impact on you.

24 The main changes relate to:

- our concept of materiality;
- the amount of audit testing we must undertake;
- how we audit the IT control environment;
- the level of audit work on journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

Performance materiality

25 A new concept of performance materiality is used at the planning stage to identify material audit items and risks of material misstatement. This is in addition to the headline materiality limit. Performance materiality is set at a lower level than headline materiality. The range is 70-90%. This change may increase the number of material information systems identified or the number of audit risks identified.

Audit testing

26 ISA (UK&I) 330 requires auditors to undertake some substantive procedures on all material entries in the financial statements. This applies irrespective of whether controls assurance is being obtained. Auditors are still required to obtain controls assurance as this is often the most efficient way of gaining audit assurance. In addition auditors have to carry out some substantive work on all material figures in the accounts.

27 There are also some changes to the sampling formula used. The lower performance materiality is used in the formula as are new risk factors. The impact is that testing samples sizes will increase.

IT Control environment

28 The audit work required to evaluate the IT control environment is more detailed and must be carried out by specially trained IT auditors. In addition to understanding the IT systems and policies in place, auditors need to test the operation of the relevant controls. Auditors will need to ask you for additional information and carry out additional audit work in this area.

Journals

29 ISA (UK&I) 330 (the auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using computer interrogation tools such as IDEA software or excel, depending on the compatibility of your general ledger software. I will discuss a suitable approach to this work soon.

Related Party Transactions

30 ISA (UK&I) 550 (related parties) requires me to review your procedures for identifying related party transactions. I need to understand the controls that you have in place to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions. I will also need to carry out audit work to assure myself that all related party transactions are set out in the financial statements.

Accounting Estimates

31 ISA (UK&I) 540 (auditing accounting estimates, including fair value accounting estimates, and related disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;

- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

32 ISA (UK&I) 265 (communicating deficiencies in internal control to those charged with governance and management) is a new standard.

33 If I identify a deficiency in any of your internal controls during the audit, I will need to carry out further audit testing to understand whether the error is significant. If I decide it is significant, I will report it in writing to your Audit Committee as those charged with governance.

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