

# **Audit Commission Progress Report**

**Maidstone Borough Council**

**March 2011**

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# Introduction

- 1 Our audit is designed to meet the requirements of the Audit Commission's Code of Audit Practice. Under the Code we are required to:
  - give our opinion on whether the financial statements present fairly the financial position and the income and expenditure for the year; and
  - issue a conclusion on whether the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 We design a programme of work to address the significant operational and financial risks facing you, which impact on our responsibilities. Our 2010/11 audit plan was agreed at the June 2010 Audit Committee. This report outlines progress to date against the work agreed in our audit plan
- 3 We will issue update reports throughout the audit year to keep the Audit Committee informed of progress.

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# Progress against the audit plan

- 4 The table at Appendix 1 sets out progress against my 2010/11 audit plan. A summary of the audit work planned and undertaken since the last Audit Committee is set out below.

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## Pre-statements audit 2010/11

- 5 The onsite audit visit for stage 1 of the audit was carried out in January 2011. This stage requires the auditor to undertake a review of the key financial systems that are used to produce the financial statements and to identify business risks the Authority faces in 2010/11. The systems review includes documenting the system, walking through a transaction to confirm the system is operating as documented, and identifying key controls within the system. There were no matters arising from this stage of the audit that need to be reported to the Committee.
- 6 I will complete our stage 2 audit visit in March 2011. This stage requires the auditor to carry out controls testing of the key financial systems on a cyclical basis. For the 2010/11 audit year I will test the General Ledger, Purchase Ledger and Car Park Income systems. If my testing identifies any areas of concern I will bring them to the attention of the Committee.

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## Value for money audit 2010/11

- 7 The Audit Commission has published its guidance on the 2010/11 value for money programme. I attach a link to the website below:

*[http://www.audit-commission.gov.uk/health/audit/methodology/Pages/valueformoneyconclusion\\_copy.aspx](http://www.audit-commission.gov.uk/health/audit/methodology/Pages/valueformoneyconclusion_copy.aspx)*

- 8 In summary, the new approach is intended to be more proportionate and risk based than the old Use of Resources assessment. The work will focus on the key areas of financial resilience and economy, efficiency and effectiveness. At Maidstone I envisage that we will focus on:
  - your medium term financial strategy and savings plans
  - financial standing, including balances, reserves and resilience of future cost efficiency plans.
  - the development of shared service and partnership arrangements
- 9 The work will not be scored, but I will report back on my findings, including examples of good practice and any areas for improvement. I will minimise the burden for you from this work, by making use as far as possible of existing Authority information. I will aim to provide helpful and constructive feedback during and at the end of the audit.

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## Post-statements audit 2010/11

- 10 I anticipate that you will be producing your 2010/11 financial statements to the same timetable as for 2009/10. On this basis I will plan to undertake our audit in July/August 2011, with the aim of producing my Annual Governance Report and audit opinion for presentation to the Audit Committee in September.
- 11 Our detailed programme for the audit of your 2010/11 financial statements is set out in our opinion Audit Plan. This is included as a separate item on this agenda.

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## Implementation of International Financial Reporting Standards (IFRS)

- 12 A key area on which we will focus for this year's audit is the Authority's restatement of its accounts under International Financial Reporting Accounts (IFRS).
- 13 During February 2011, the Audit Commission undertook a survey of local government, police and fire authorities to assess their progress in implementing IFRS. At the time of completing the second survey (December 2010) we had assessed the Authority as "amber risk", because whilst a clear implementation plan had been prepared by officers progress was behind schedule at that stage. Our risk rating has remained as "amber" (in common with most other authorities), as, whilst increased resources have now been allocated to this area of work, there is still much to be done. There are no significant matters in terms of IFRS restatement which we need to raise at this stage.
- 14 In terms of progress to date, we have now reviewed the restated opening balances and are in the process of auditing your revised 2009/10 accounts. This exercise will assist officers in preparing 2010/11 accounts that are IFRS compliant.
- 15 As the Authority progresses towards the closure of the 2010/11 accounts the following are the key areas of IFRS which it will need to focus on:
  - Componentisation of non current assets: The Authority will need to separately identify and value material expenditure on component or separate parts of assets incurred from 1 April 2010.
  - Segmental Reporting: The Authority will need to provide a note of the breakdown of the main operating activities that are reported to senior management
  - Arrangements that contain a lease: The Authority has made good progress on the identification of potential leases. It now needs to complete the estimation of asset values and confirm its decision as to whether they are on or off balance sheet.
- 16 We will provide a further update on our work at the June meeting of the Audit Committee, and our opinion on the completed IFRS accounts by 30 September 2011.

## Other matters of interest to the accounts: Proposed changes to the Accounts and Audit Regulations

- 17 In On 24 January 2011 the Department for Communities and Local Government (DCLG) published a consultation on its website: Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended - consultation. It is proposed the revised regulations are implemented with effect from 31 March 2011 i.e. for 2010/11 accounts.

- 18 The proposed changes include a revised procedure for the approval and publication of statements of accounts and other accounting statements, so that members give their approval in the knowledge of the audit findings. The closing date for the consultation is 4 March 2011
- 19 There are a number of proposed revisions but the approval and publication of statements probably has the biggest potential impact for the Council.
- 20 We are in discussion with officers about the impact on their closedown process, as well as on reporting requirements for this Committee. We have agreed that we will keep to existing timetables for the handover of draft accounts and working papers to the audit team and for the timetable for the audit.

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# Recent Publications

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- 21 This section of the update report provides reference to our national reports that may be of particular interest to members of the Audit and Compliance Committee. For more information on these publications, please visit the audit commission website [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## International Financial Reporting Standards: reporting on operating segments (October 2010)

- 22 The latest technical briefing paper in our series on implementing International Financial Reporting Standards (IFRS) in local government is 'Reporting on operating segments: Countdown to IFRS in local government'. The paper covers principles and practical issues that authorities should consider when reporting on operating segments.

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## Protecting the Public Purse (October 2010)

- 23 In our report Protecting the public purse: fighting fraud against local government and local taxpayers, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify more fraud risks and urge local councils and related bodies to focus on them
- 24 Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.
- 25 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

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## Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting

- 26 A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.
- 27 The report covers:
- auditors' work on the 2009/10 financial statements;
  - the results of auditors' 2009/10 local value for money work;

- the public interest reports and statutory recommendations issued by auditors since December 2009; and
  - the key financial management and financial reporting challenges for 2010/11.
- 28 The report congratulates seven councils, one police authority, three local government bodies and one fire and rescue authority for early publication. There is great interest in financial transparency by public bodies at the moment and we believe that early publication of audited accounts is an important contribution to openness and accountability.
- 29 The Commission reports that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils (2 per cent of the total) and 11 local government bodies (12 per cent). The report also names two councils where the auditor gave a qualified opinion.
- 30 <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/20101216auditingtheaccounts.pdf>



# Appendix 1 – Delivery of specific work against audit plan

**Table 1 Audit Progress**

The table below sets out the agreed work programme included in the 2009/10 and 2010/11 audit plans, with progress to date

Area of work identified in Audit Plan	Planned Output	Actual Output
<b>2009/10 plan</b>		
2009/10 Audit Fee Letters	March 2009	March 2009
2009/10 East Kent Partnership Review	Jan-Mar 2010	February 2010
2010/11 Audit Fee Letters	March 2010	April 2010
2009/10 Opinion Audit Plan	April 2010	April 2010
2009/10 Annual Governance Report	September 2010	September 2010
2009/10 Opinion and VFM Conclusion	September 2010	September 2010
2009/10 Whole of Government A/c's return	October 2010	October 2010
2009/10 Organisational Assessment	October 2010	No longer applicable
2009/10 Annual Audit Letter	November 2010	November 2010
2009/10 Annual Grant Claims Report	December 2010	February 2011
<b>2010/11 plan</b>		
2010/11 Audit Plan	March 2011	March 2011
2011/12 Audit Fee Letters	June 2011	
2010/11 Annual Governance Report	September 2011	
2010/11 Opinion and VFM Conclusion	September 2011	
2010/11 Whole of Government A/c's return	September 2011	
2010/11 Annual Audit Letter	November 2011	
2010/11 Annual Grant Claims Report	January 2012	