

TRAFFORD COUNCIL
EXTERNAL AUDIT PROGRESS REPORT - JANUARY 2013

| Audit Area | Planned date | Complete? | Comments |
|---|---------------------|-----------|--|
| 2012-13 Audit fee letter <ul style="list-style-type: none"> ▪ proposed 2012-13 audit fee ▪ outline audit work programme. | November 2012 | ✓ | We set out our proposed audit fee and work programme for 2012-13 in a letter to the Chief Executive. A copy is attached at the end of this report.. |
| 2012-13 Audit Plan We are required to issue a detailed audit plan to the Council, setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements. | March 2013 | | We will produce a plan highlighting accounting risks we identify from our audit planning and discussion with the finance team. We will set out our proposed work to address those risks. |
| Interim Accounts audit Our interim fieldwork will include the following: <ul style="list-style-type: none"> ▪ review of the Council's control environment ▪ examine and test controls within the Council's core financial systems ▪ liaise with and assess the work of Internal Audit ▪ review arrangements to compile the Annual Governance Statement ▪ examine progress on prior year recommendations ▪ early work on emerging accounting issues. | January - June 2013 | | We are meeting with Council officers on a regular basis to discuss accounting issues. We will conclude our initial findings on the accounting risks identified in our Audit Plan during our interim audit. |

| Audit Area | Planned date | Complete? | Comments |
|---|--------------------------|-----------|---|
| <p>Value for Money Audit work</p> <p>We will give our statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Audit Commission, related to the Council's arrangements for:</p> <ul style="list-style-type: none"> • securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future • challenging how it secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency. | January – September 2013 | | <p>We will complete our risk assessment and set out a planned programme of VFM work to inform our 2012-13 conclusion.</p> <p>All our VFM work will be completed by September 2013. We will present a separate financial resilience report detailing our findings to management. We will include other key VFM conclusion findings and recommendations in our Annual Audit Letter.</p> |
| <p>2012-13 Final Accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> ▪ audit of the 2012-13 financial statements and Whole of Government Accounts return ▪ proposed opinion on the Council's accounts ▪ proposed Value for Money conclusion. | June-September 2013 | | Our Annual Report to those Charged with Governance will detail matters arising from our accounts audit. |
| <p>2012-13 Annual Audit Letter</p> <p>We are required by October 2013 to summarise our work performed at the Council, including:</p> <ul style="list-style-type: none"> • accounts audit • VFM audit work • grant claim certification. | October 2013 | | Our Annual Audit Letter will summarise the findings from our 2012-13 audit. |

| Audit Area | Planned date | Complete? | Comments |
|--|-----------------------------|-----------|--|
| <p>2012-13 Grant claims report</p> <p>Our review of the Council's 2012-13 grant claims will take place during the period June to December 2013.</p> | <p>June - December 2013</p> | | <p>Our Grant claims report will summarise our findings from our audit of the Council's 2012-13 grant claims.</p> |

Grant Thornton UK LLP
January 2013

Reports and Developments

Protecting the public purse (November 2012)

This Audit Commission report finds that councils are targeting their investigative resources more efficiently and effectively, detecting more than 124,000 cases of fraud in 2011/12 totalling £179 million. But it urges them not to drop their guard, as new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report gives the results of the Audit Commission's annual survey of English councils. It says that, despite these detection rates, more can still be done. The National Fraud Authority (NFA) estimates that the total amount of fraud in the UK costs every adult in the country about £1,460 a year. Fraud targeting just local government exceeds £2.2 billion per year.

The Audit Commission has updated its checklist which organisations can use to consider how effective they are at responding to the risk of fraud.

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/protecting-the-public-purse-2012.aspx>

Tough Times (November 2012)

These are challenging and uncertain times for councils as they cope with the second year of the four-year Spending Review. The savings needed are lower in 2012/13 than in 2011/12, but the cumulative effect is significant for many.

The report is the second in the Commission's Tough times series. It finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible.

A sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver their budgets.

The report says that auditors are concerned that 12 per cent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 per cent will cope in 2012/13, but may struggle in the remaining years of the Spending Review period.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes2012.aspx>

Striking a balance (December 2012)

'Striking a balance' presents the Audit Commission's findings from research undertaken during 2012 on the level of reserves that councils hold and on the decisions councils make relating to them.

Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium-term financial plans and setting annual budgets.

The report encourages English councils to focus more attention on the £12.9 billion set aside in their reserves – the equivalent of nearly a third of their net spending on services in 2011/12. While it finds that councils routinely consider reserves as part of their annual budget setting, the report calls for officers to offer elected members clearer and more comprehensive advice, equipping them to make better-informed decisions. It also calls for greater clarity from councils about the reasons for holding reserves.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/Strikingabalance.aspx>

Auditing the Accounts 2011/12: Quality and timeliness of local public bodies' financial reporting (December 2012)

The Audit Commission's Auditing the Accounts 2011/12 report summarises the results of auditors' work for 2011/12 at councils, fire and rescue authorities, police bodies, other local government bodies, parish councils and internal drainage boards. The report covers the timeliness and quality of financial reporting and summarises:

- auditors' work on the 2011/12 financial statements;
- 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 2011; and
- the key financial reporting and financial management challenges facing bodies for 2012/13.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2012 at 98 per cent of councils, all fire and rescue authorities, 97 per cent of police bodies, all other local government bodies, 97 per cent of parish councils and 97 per cent of internal drainage boards. This is an improvement for all types of body compared with 2010/11.

Eleven principal bodies received an unqualified audit opinion by 31 July 2012 and published their audited accounts promptly.

At the date of preparing the report, no principal bodies had received a qualified audit opinion on the 2011/12 accounts, which is a considerable achievement. The overwhelming majority of small bodies (93 per cent of parish councils and 95 per cent of internal drainage boards) received an unqualified opinion on their 2011/12 annual return by 30 September.

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/pages/auditing-the-accounts-1112.aspx>

Towards a tipping point (December 2012)

While authorities met their 2011–12 targets as they anticipated, Grant Thornton's review concluded that the confidence in achieving targets in the medium-term has fallen since last year. With many factors leading to an uncertain environment in which to set financial plans, we ask if a critical point is coming where local authorities can no longer deliver.

Overall, local authorities have continued to manage in the current environment, but improving scenario planning, sensitivity analysis and reporting of savings programmes as well as ensuring financial governance arrangements remain robust will help finance management to influence key stakeholders in the uncertain times ahead.

A summary for each theme follows.

- 86% of authorities were rated green for **key indicators of financial performance** for 2010–11, and this has increased to 96% for 2011–12. Liquidity received the lowest overall rating (87%). While for many authorities their Treasury Management Strategy is leading to a planned reduction in liquidity, and borrowing headroom provides a degree of confidence for the medium-term, authorities will need to ensure that their liquidity is carefully monitored, for example in the collection of council taxes and business rates during challenging economic times.
- Local authorities demonstrated good **financial governance** during our 2010–11 reviews, with 86% receiving green ratings. This has increased to 92% for 2011–12. This theme has the first sub category to receive a red rating (Adequacy of Reporting) and it will be critical that financial information is reported accurately, at the right frequency, and in a format that ensures effective monitoring and decision making. This includes where services are not delivered in-house, which will be an increasing trend for the sector.
- Our 2010–11 reviews indicated that the weakest thematic area was **financial controls**, with 71% of authorities receiving a green rating. Our 2011–12 reviews indicate an improvement, with 83% of our sample receiving a green rating. However, this is the joint lowest overall rating, along with strategic financial planning. A key risk to be managed in this area continues to be embedding the changes resulting from reductions in finance staff and the associated increase in financial responsibilities of service managers and budget holders.
- Local authorities demonstrated strong **strategic financial planning**, during our 2010–11 review, with 93% in our sample receiving a green rating. This declined to 83% for 2011–12, the only thematic area that saw a fall in the overall green rating. While this remains at a high level overall, the reduction highlights the increasing difficulty local authorities face in planning for the medium-term in what

remains a greatly challenging and uncertain period. It remains critical that authorities improve their scenario planning and the use of sensitivity analysis on key assumptions in their financial models.

The report also provides details of a similar review we undertook of a sample of NHS trusts and primary care trusts for both 2010-11 and 2011-12. Health bodies received lower ratings than local authorities for 2010-11, with significantly lower levels of green ratings across themes, and with no green ratings for key indicators of financial performance. There has been some improvement for 2011-12. For example, and unlike local authorities, strategic financial planning for health bodies has improved. However, the overall ratings remain significantly lower than the overall local authority ratings.

http://www.grant-thornton.co.uk/Global/Publication_pdf/towards-tipping-point-report.pdf

2012/13 Final Accounts Workshops

We have invited your staff to attend a workshop that will help them to prepare your financial statements for 2012/13.

We are providing a series of 17 joint workshops with CIPFA's Financial Advisory Network (FAN) during February and March. The events will encompass the key issues arising from the CIPFA Code and Guidance Notes revisions, as well as the latest position on future expected changes to the Code and their potential impact on the accounting requirements. The events will also include an update on the 2012/13 Whole of Government Accounts (WGA) process, a practitioner presentation on how their authority have streamlined the accounts closedown process to take several weeks off the audit sign-off date, and a practical and interactive workshop to explore ways to improve the clarity, readability and relevance of the published Statement of Accounts.

The closest event for Trafford Council is in our Manchester office on 14 February 2013.

<http://www.cipfa.org/Events/F/FAN-Undertaking-the-201213-Accounts-closedown-20130214>

2013/14 Fees and work programme

The Audit Commission is consulting on its 2013/14 proposed work programme and scales of fees.

Two separate consultation documents cover the Commission's work:

- at local government and police bodies; and
- at health bodies.

Following an exercise to outsource the work of its in-house audit practice, in March 2012 the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards. When the Commission announced the reductions, they said that they expected these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

The Commission do not plan to make any changes to the work programme for 2013/14. They therefore propose that scale audit fees are set at the same level as the fees applicable for 2012/13. The Commission will publish the final work programme and scales of fees for 2013/14 by April 2013.

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314fees/Pages/201314feesandworkprogramme.aspx>

Key Considerations

The Accounts and Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council considered the Audit Commission's updated checklist to consider how effective they are at responding to the risk of fraud?
- Has the Council considered if members are provided with sufficient information on the current level of reserves and the forward strategy for reserves needed to support the Council's medium and long-term spending plans?
- Has the Council made appropriate use of the Financial Resilience section of the Audit Commission's Value for Money Profiles tool to compare reserves over time and with other councils?
- Has the Council considered the questions suggested in the Audit Commission's 'Striking a balance' report to help elected members gather information that will assist them in their decision making and scrutiny roles?
- Has the Council considered the findings in the Audit Commission's Tough Times report to assess how well placed it is to deliver the budget in 2012/13 and over the remainder of the Spending Review period?
- Has the Council considered the findings of Grant Thornton's Towards a Tipping Point and considered how they compare with identified best practice in each of the four areas?
- Has the Council responded to the Audit Commission's consultation on the 2013/14 proposed fees and work programme?

Contact Details

If you would like further information on any items in this briefing, please feel free to contact either your external audit Director.

Alternatively, all Audit Commission reports and other material can be found on www.audit-commission.gov.uk.

Grant Thornton reports can be found on our public sector website <http://www.grant-thornton.co.uk/en/Services/Public-Sector/>

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Grant Thornton

An instinct for growth™

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19 November 2012

Dear Theresa

Trafford Council - Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £156,119 which compares to the audit fee of £260,199 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

The fee does not include any amounts for the exercise of additional formal audit powers and duties such as considering objections to the accounts. We will notify the Council of any such additional fees during the year.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £21,500.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

| Main Audit fee | £ |
|----------------------------|----------------|
| December 2012 | 78,060 |
| January 2013 | 39,030 |
| March 2013 | 39,029 |
| Grant Certification | |
| June 2013 | 21,500 |
| Total | 177,619 |

Outline audit timetable

We will undertake our audit planning and interim audit procedures between November 2012 and March 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed by the end September 2013, together with our work on the whole of government accounts return.

| Phase of work | Timing | Outputs | Comments |
|----------------------------------|-----------------------------|---|--|
| Audit planning and interim audit | November 2012 to March 2013 | Audit plan | The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM. |
| Final accounts audit | June to September 2013 | Report to those charged with governance | This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance. |
| VFM conclusion | January to September 2013 | Report to those charged with governance | As above |
| Financial resilience | January to September 2013 | Financial resilience report | Report summarising the outcome of our work. |
| Whole of government accounts | September 2013 | Opinion on the WGA return | This work will be completed alongside the accounts audit. |
| Annual audit letter | October 2013 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work. |

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|---------------------|-----------------------|----------------------------|---|
| Grant certification | June to December 2013 | Grant certification report | A report summarising the findings of our grant certification work |
|---------------------|-----------------------|----------------------------|---|

Our team

The key members of the audit team for 2012/13 remain unchanged:

| | Name | Phone Number | E-mail |
|--------------------|-----------------|---------------------|--|
| Engagement Lead | Mick Waite | 0161 234 6347 | mick.j.waite@uk.gt.com |
| Engagement Manager | Helen Stevenson | 0161 234 6354 | helen.l.stevenson@uk.gt.com |
| Audit Executive | Andrew McNeil | 0161 912 4624 | andrew.mcneil@uk.gt.com |

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Head of Public Sector Assurance at sarah.howard@uk.gt.com.

Yours sincerely

Mick Waite

Director
For Grant Thornton UK LLP

cc Ian Duncan, Director of Finance