

Progress report and briefing

June 2012

Brighton and Hove City 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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Audit progress

Introduction

- 1 The purpose of this paper is to provide the Audit & Standards Committee with a report on progress in delivering my responsibilities as the Council's external auditor.
- 2 If you require any more information about the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team. Contact details are set out at the end of this update.

2011/12 audit

Financial statements

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

Table 1: **Audit time line**

Work flow	Date of completion	Reports/Progress
Documentation and walkthrough of key financial systems	January 2012	Complete. I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.

Work flow	Date of completion	Reports/Progress
<p>Audit Commission controls testing. Review of Internal Audit controls testing.</p>	<p>Mainly complete by April 2012. Final controls testing completed by the end of June 2012.</p>	<p>I have liaised with Internal Audit to plan my detailed testing of controls in your key financial systems. Work has been undertaken by Internal Audit which I am able to rely on. A small amount of controls testing work remains in progress.</p> <p>I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.</p>
<p>Post statement audit and financial statements opinion.</p>	<p>By 30 September 2012</p>	<p>As in 2010/11, I intend to deliver my work in a shorter period of time using a larger audit team. I intend that most of my post-statement work will be delivered during July 2012. This approach in general worked well last year and has benefits both for officers and my team.</p> <p>The main delay in delivering my post-statement audit last year was caused by difficulties in testing detailed transactions produced by your payroll system. In light of this I planned to undertake this work early in the audit cycle and before you produced your 2011/12 financial statements. This work is now complete subject to the potential need to undertake a small amount of testing as part of my work on your financial statements.</p> <p>The results of my work on the 2011/12 financial statements will be reported in my annual</p>

Work flow	Date of completion	Reports/Progress
		governance report which I will present to the September 2012 Audit & Standards Committee meeting.
Value for money (VFM) work.	By 30 September 2012	I will report the results of my detailed work to inform the 2011/12 VFM conclusion in my 2011/12 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2012. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit & Standards Committee.

VFM conclusion

- 4 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 conclusion.
- 5 From 2010/11, the Commission introduced new requirements for VFM audit work at local authorities. Auditors 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 2011/12	
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.

6 The main risk that is relevant to my value for money conclusion continues to arise from funding reductions in the comprehensive spending review and the resulting need to continue to secure significant efficiencies to achieve your medium term financial plans. In light of this I intend to undertake the following work to inform my 2011/12 value for money conclusion:

- I will use the Audit Commission's VFM profile database, and other available information on cost, to consider your costs relative to your statistical nearest neighbours;
- I will consider your arrangements to compare costs and outcomes against others to form a view on the level of understanding you have on the value for money delivered. In particular I will consider your arrangements to ensure that commissioners have adequate information on costs and outcomes to make properly informed decisions; and
- I will consider how you use comparative information on costs and outcomes to inform budgeting and gain assurance that your pattern of spending matches your priorities.

Other matters

Update on outsourcing the work of the Audit Practice

7 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

8 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for

the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

9 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work as quickly as possible.

Update on the residual Audit Commission

10 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

11 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

2012/13 audit fees

12 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April 2012.

13 As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation. Lists of fees by audited body, the work programme and scale of fees can be found at:

<http://intranet.audit-commission.gov.uk/ContentDisplay.aspx?nodeId=12956&guid=867f7c2e-91be-4c9b-94cb-f864fa398932>.

14 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

15 The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

16 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11. Further information on NFI fees can be found at:

<http://www.audit-commission.gov.uk/fraud/nfi/public-sector/Pages/fees.aspx>.

2010/11 National Fraud Initiative results

17 In May 2012 the Audit Commission published the results of the NFI for 2010/11. The full report can be found at:

<http://www.audit-commission.gov.uk/fraud/nfi/reports/Pages/default.aspx>.

18 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

19 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 3: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Public sector internal audit standards

20 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

21 This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

22 The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts). Some further information can be found at:

http://www.cipfa.org.uk/press/press_show.cfm?news_id=61685.

Payment by results

23 The Audit Commission published Local payment by results on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services. A copy of the full report can be found at:

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

24 PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

25 What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

26 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

27 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

28 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

29 The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

The rights of local electors

30 The Audit Commission has published an updated version of Council accounts: a guide to your rights. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

31 The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

32 Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website at:

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/Pages/councilsaccountsyourrights03072006.aspx>

National Audit Office role in local VFM studies

33 The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

34 A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

35 The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

36 Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

CIPFA's brief guide to local government finance reforms

37 As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes. A copy of the guide can be found at:

http://www.cipfa.org.uk/panels/lgpp/download/Brief_guide_to_local_government_finance_reform.doc.

38 CIPFA's Brief Guide to Local Government Finance Reforms seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

39 The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

Contacts

40 The key members of the audit team for the 2011/12 are set out below.

Table 4: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 e-mail: helen-thompson@audit-commission.gov.uk
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