

Audit

Committee

Update

17 January 2012

Blackburn with Darwen Borough 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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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Karen Murray

District Auditor

January 2012

Progress report

2010/11 Audit

5 The 2010/11 audit is now complete. The 2010/11 Annual Audit Letter is included as a separate agenda item for today's meeting.

6 The 2010/11 certification work is also now complete. A report summarising the outcome of that work is included as a separate agenda item for today's meeting.

2011/12 Financial statements

7 My team have commenced work on the 2011/12 audit. At this stage, my work involves examining each of the Council's key financial systems. My team will update existing systems documentation and undertake walkthrough tests to confirm the controls expected within each system are in place. I anticipate the majority of this work will be complete by March 2012. To maximise audit efficiency, I will place reliance on work undertaken by internal audit where possible.

8 My 2011/12 Audit Plan sets out my approach to the audit and the risks I have identified at this stage. This is a separate item on the agenda for today's meeting.

2011/12 VFM conclusion

9 I will consider the Council's arrangements to secure value for money as part of my 2011/12 audit. In particular I will monitor the Council's progress towards securing the efficiencies and savings needed to deliver the 2011/12 budget, and plans for future years.

10 The criteria against which I make my assessment of your arrangements have remained unchanged from last year and are:

- the organisation has proper arrangements in place to secure financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Other matters of interest

Update on the externalisation of the Audit Practice

11 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

12 The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

13 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

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

15 Against this background, the Audit Practice's focus remains:

- fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit – to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider.

2011/12 Final Accounts Workshops

16 We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12. These events aim to:

- explore the key challenges that preparers of accounts face in 2011/12; and
- help deliver a smooth and trouble-free closedown.

17 The closest event for Blackburn with Darwen Borough Council is at Manchester Metropolitan University on 26th January 2012 or Lancaster University on 31st January 2012. Please contact Karen Murray, your District Auditor, if you have not received an invite to these workshops or if you would like to discuss the events in more detail.

Income Generation

18 Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year.

19 CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

20 In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

21 Rather than just focussing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

22 This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

Code on Data Transparency

23 On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

24 Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

25 The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the 'pay multiple' – the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority's fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and
- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision-making processes and records of decisions.

Guides to Local Government Finance

26 CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

27 In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

28 In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

Financial Management in Schools

29 On 19 October 2011 the National Audit Office (NAO) published a report covering financial management in local authority maintained schools.

30 Up to 2007/08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many schools did not need to prioritise efficiency to remain within their budgets.

31 However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula are being introduced – alongside continuing pressure for improved performance.

32 The NAO found that weak financial management and weak academic performance often go hand in hand. A comparison of Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits showed that schools in deficit generally performed worse than schools in surplus.

33 The NAO's report continues a number of recommendations for the Department of Education, but nevertheless should prove of interest to local authorities themselves.

Dealing with the economic downturn

34 On 17 November 2011 the Audit Commission published 'Tough Times – Councils' responses to a challenging financial climate'.

35 The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

36 The key findings in the report are as follows.

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books.
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets.
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years.
- Councils are not planning to make significant withdrawals from their reserves this year – some even plan to increase them.

37 The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

Procurement Fraud in the Public Sector

38 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

39 The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

40 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

Protecting the Public Purse 2011

41 In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 – Fighting Fraud against Local Government.'

42 This report is based on the Audit Commission's annual fraud survey – which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

43 The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

44 The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts – £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

45 We have therefore developed a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average and this can be found on our website.

46 The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

47 The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

48 In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

For information: Police Reform and Social Responsibility Act 2011

49 The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

50 This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

51 The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

52 The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

Localism Act 2011

53 On 15 November 2011 the Localism Bill received Royal Assent.

54 The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.

55 Subject to commencement, key measures of the Act include the following.

- Introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything – provided they do not break other laws.
- Giving communities the right to approve or veto – by way of a referendum – Council Tax increases higher than a limit determined by the Government.
- Opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies.
- Abolishing the Standards Board.
- Clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge.
- Enabling councils to return to the committee system of governance, if they wish, regardless of their size.
- Giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs.
- Promoting openness regarding the pay of senior officers.
- Allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

56 Many of the measures in the Localism Act are expected to be in place by April 2012.

Openness and Accountability in Local Pay

57 The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

58 On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

59 Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

60 There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

Key considerations

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

- Has the Council reviewed and considered the actions needed in the light of:
 - CIPFA's guide on income generation;
 - the Code of Recommended Practice for Local Authorities on Data Transparency;
 - CIPFA's guide to Local Government finance; and
 - the NAO's report on financial management in schools?
- Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?

Contact details

62 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

63 Alternatively, all Audit Commission reports – and a wealth of other material – can be found on our website: www.audit-commission.gov.uk.

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