

External Audit Progress Report and Briefing

December 2011

Tonbridge & Malling BC

Audit 2011/12

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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Introduction

The purpose of this paper is to update the Audit Committee with progress in delivering our responsibilities as your external auditors.

The paper also provides information on recent Audit Commission publications and emerging national issues, and includes questions linked to these which the Committee may wish to consider.

If you require any additional information on any of the issues included in this briefing then please do not hesitate to contact either the Audit Manager, Trevor Greenlee or myself.

Andy Mack

District Auditor

14 December 2011

Progress Report

Our responsibilities

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 Council's financial statements give a true and fair view of its financial position and of the income and expenditure for the year; and
- issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Progress against the 2011/12 audit plan

2 The table at Appendix 1 sets out progress against our 2011/12 audit plan.

Other Matters of Interest

3 This section highlights emerging issues which may be of interest to the Audit Committee.

2011/12 Final accounts workshops

4 We have invited your staff to this year's Audit Commission workshop for local government officers involved in preparing financial statements.

5 The closest event for Tonbridge & Malling BC will be held at the University of Kent, Canterbury on 28 February 2012. Further details of the workshop have been shared with the finance team.

Localism Act 2011

6 On 15 November 2011 the Localism Bill received Royal Assent. The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation.

7 Subject to commencement key measures of the Act include:

- 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 local economies;
- abolition of the Standards Board;
- clarifying the rules on predetermination to allow 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, including the power to offer business rate discounts;
- promoting openness on senior officer pay; and
- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

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

Openness and accountability in local pay

9 The Localism Act requires local authority pay policies to be openly approved by councillors.

10 On 17 November 2011 DCLG 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.

11 Pay policy statements must be in place by 31 March 2012. Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000. There will be a requirement to publicly justify any large bonuses, annual pay rises above inflation, or hiring a person already in receipt of retirement or severance money. Organisations should state in their pay policy statement whether or not they permit such practices.

Procurement fraud in the public sector

12 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.

13 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. The report includes a number of case studies and identifies actions to reduce risk that can be taken immediately and in the medium term.

Update on the externalisation of the Audit Practice

14 On 21 September the Audit Commission's Chief Executive wrote to organisations updating them on progress with transferring the work of the in-house Audit Practice to the private sector. This transfer will be achieved by outsourcing the work through a procurement exercise.

15 On 10 November the Chief Executive wrote to audited bodies with a further update, advising that invitations to tender for the principal bodies' procurement had been issued to 13 potential bidders. Further details of the outsourcing process are available on the Commission's website.

16 We will continue to keep you updated on the externalisation of the Audit Practice. Locally we remain focussed on:

- fulfilling our responsibilities by delivering your 2011/12 audit to a high standard; and
- managing a smooth transition from the Audit Practice to your new audit provider.

Audit Commission publications

17 This section gives details of recent Audit Commission publications which may be of interest to the Audit Committee. Copies of these reports and other material can be found on the Audit Commission website: www.audit-commission.gov.uk.

Auditing the accounts (December 2011)

18 This report summarises the results of auditors' work for 2010/11. Auditors' work includes the audit of the financial statements, the review of the Whole of Government Accounts return, a review of arrangements to secure value for money and the exercise of statutory reporting powers.

19 The report comments favourably on the quality and timeliness of financial reporting by councils, police authorities and fire and rescue authorities in 2010/11, despite the requirement to prepare accounts for the first time under International Financial Reporting Standards (IFRS).

20 Auditors were able to give opinions by 30 September 2011 at:

- 328 out of 356 councils;
- 36 out of 38 police authorities;
- 30 out of 31 fire and rescue authorities; and
- 28 out of 32 other local government bodies.

21 This performance compares well with 2009/10 despite the additional challenges of IFRS. Only one council received a qualified opinion and this was unrelated to the implementation of IFRS.

22 However, the transition to IFRS had had an impact on timeliness. The number of bodies where the opinion was still outstanding after 31 October rose from 7 in 2009/10 to 18 in 2010/11. There has also been an impact on quality, with a significant increase in the number of bodies needing to make material accounts adjustments following the audit.

Work in progress (December 2011)

23 This report has been jointly produced by the Audit Commission and the Local Government Association and is aimed at councils as employers. It shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

24 Government funding for councils will shrink by over a quarter between 2011/12 and 2014/15. Not all councils face the same financial challenges,

but the report concludes that all councils must reassess what they do and how they do it.

25 The report is supported by a number of resources including:

Agency workers expenditure tool

26 The [agency workers expenditure tool \(Excel, 1.8Mb\)](#) shows councils how much they spend on agency workers compared with groups of similar councils.

Workforce expenditure tool

27 The [workforce expenditure tool \(Excel, 5.8Mb\)](#) shows councils how much they spend on staff as a proportion of their net current expenditure and how this has changed over time. It allows councils to compare their spending on pay and rewards with other councils.

Case studies

28 The [five case studies \(PDF, 266Kb\)](#) provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting services. Each example has contact details for more help and information.

Briefing for elected members

29 This [briefing for elected members \(PDF, 156Kb\)](#) includes questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services. The questions are in two parts; the first part deals with the information about the workforce that should be available to members, and the second covers the savings strategies councils could follow in the light of that information.

A guide to pay benchmarking

30 This document provides practical advice and [guidance on how to undertake effective pay benchmarking \(external link\)](#). It provides a series of steps that practitioners can follow when starting a pay benchmarking process and highlights the main issues that should be considered.

Labour market nearest neighbour methodology

31 This paper examines the existing ways in which local labour markets are compared and tests these for statistically significant variations in local pay levels. It then tests a series of other variables reflecting local labour market conditions (e.g. house price) and produces a methodology for defining the local labour market. This model can then be used to identify local authority areas with similar labour markets. A tool is provided to [enable local councils to identify those authorities with similar labour markets \(external link\)](#). This [labour market nearest neighbour methodology \(external](#)

[link](#)) will be reviewed and refined with a final model aimed for publication in late 2012.

Tough times (November 2011)

32 “Tough times” is a new report looking at councils' responses to the challenging financial climate. The report contains new Audit Commission analysis of revenue account (RA) data provided by councils to the DCLG. It also summarises the findings from a survey of local government auditors on the impact of falls in government support and councils' responses as they prepared their plans for 2011/12.

33 The report looks at the impact on councils of:

- a real terms reduction of £3.5 billion in government funding; and
- a £1.2 billion fall in local income from council tax and fees and charges.

34 Key findings include:

- Despite the unprecedented funding pressures nine out of ten councils are on track to deliver their 2011/12 budgets;
- Councils are not planning to make significant withdrawals from their reserves in 2011/12 - some plan to increase them;
- Despite generally good arrangements to identify efficiency savings most councils plan to reduce the quality or frequency of some services and raise fees and charges; and
- The report found no link between the size of cuts and the extent of the impact on services. Some councils are better than others at minimising the impact of reductions in funding on services.

35 The report recommends that councils use the Audit Commission's [Value for Money profiles](#) to see how they compare with the national picture, identify councils facing similar challenges and learn from approaches elsewhere.

Protecting the public purse (November 2011)

36 This report summarises the 2010/11 findings from the Audit Commission's annual fraud survey.

37 In 2010/11 local public bodies detected approximately 121,000 frauds valued at £185 million. This compares with 119,000 detected frauds valued at £135 million in 2009/10. Councils also recovered nearly 1,800 homes from tenancy fraudsters. To build those homes from new would have cost the public purse over £265 million.

38 The main areas of fraud were;

- Housing and council tax benefit (£110 million)
- False claims for council tax discounts (£22 million); and
- Procurement fraud (£15 million)

39 The report identifies emerging areas of risk such as fraudulent student council tax discount claims and fraud against social care payments to the

elderly and vulnerable. It urges public bodies to focus on these issues and improve their counter-fraud defences.

40 The report includes an updated self-assessment checklist which can be used to assess the effectiveness of the Council's arrangements.

41 The Audit Commission has also developed a [single person discount comparator tool](#) which allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.

Key Considerations

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

- Has the Council circulated the DCLG's plain English guide to the Localism Act to members?
- Has the Council considered the "Work in Progress" report and use of the various tools accompanying it?
- Has the Council considered the "Tough Times" report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Council considered the "Protecting the public purse" report? Has it completed the fraud prevention checklist and developed an action plan to address any weaknesses?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?

Appendix 1 Progress against the 2011/12 audit plan

The table below sets out the work programme for the 2011/12 year with progress to date.

Table 1:

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
Audit planning		
2011/12 Audit fee letter		Issued April 2011
Opinion		
Financial systems	<p>We are required to obtain assurance that the information from the material systems used to prepare the Council's accounts is complete and accurate.</p> <p>Each year we evaluate the key controls within these systems which prevent or detect material misstatement. We perform detailed testing on the operation of these controls on a cyclical basis. Where possible we place reliance on the work of internal audit.</p> <p>Our work to review material systems is now in progress.</p>	<p>Any significant weaknesses in internal control will be discussed with officers and reported in our Annual Governance Report.</p>
Review of the 2010/11 financial statements	<p>We will liaise with officers throughout the year on issues relating to the preparation of the 2011/12 accounts.</p> <p>Our detailed work to review the 2011/12 financial statements will begin in June 2012.</p>	<p>Audit Opinion: September 2012</p> <p>Annual Governance Report: September 2012</p>

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
Whole of Government Accounts	We are required to audit the whole of government accounts consolidation pack. Our work is performed following completion of the audit of the Council's financial statements.	Audit report September 2012
Value for Money Conclusion		
	<p>In 2011/12 auditors will again give their statutory Value for Money (VFM) conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria specified by the Commission, relating to a 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; and ■ 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. <p>Our work will commence in February 2012.</p>	VFM Conclusion: September 2012
Certification of claims and returns	<p>In 2011/12 we will be required to certify the following grant claims and returns;</p> <ul style="list-style-type: none"> ■ Housing and council tax benefit subsidy claim; and ■ National Non-Domestic Rates Return 	<p>Certificate due November 2012</p> <p>Certificate due September 2012</p>
Annual Audit Letter		
	The Annual Audit Letter is a publicly-available document which summarises our findings under the Code of Audit Practice.	Annual Audit Letter October 2012

