

# External Audit Progress Report and Briefing

June 2012

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.**

# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Progress Report.....</b>	<b>3</b>
Our responsibilities .....	3
VFM conclusion .....	3
Certification of claims and returns .....	3
Progress against the 2011/12 audit plan .....	4
<b>Update on the externalisation of the Audit Practice.....</b>	<b>5</b>
<b>Other matters of interest .....</b>	<b>7</b>
Work programme and scale of fees 2012/13.....	7
NFI Work programme and scale of fees 2012/13 .....	7
<b>Audit Commission publications .....</b>	<b>8</b>
The National Fraud Initiative: 2010/11 Annual Report (May 2012).....	8
<b>Contact details .....</b>	<b>10</b>
<b>Appendix 1 Progress against the 2011/12 audit plan .....</b>	<b>11</b>

# 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 more 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

30 May 2012

# 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.

2 We are also required to:

- review whether the Annual Governance Statement is presented in accordance with relevant requirements; and
- audit the whole of government accounts consolidation pack based on the information provided in the financial statements.

## VFM conclusion

3 Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

4 Further information on our initial risk assessment and planned work is included in our audit plan which was presented to the April Audit Committee.

## Certification of claims and returns

5 In 2011/12 we also anticipate being required to certify the following grant claims and returns:

- Housing and Council Tax Benefits Subsidy Claim; and
- National Non-Domestic Rates Return.

6 Each return has a separate deadline for certification. We will liaise with the Council to ensure work is completed to meet the specified deadline.

## Progress against the 2011/12 audit plan

7 The table at Appendix 1 summarises the progress to date in completing our planned audit work for 2011/12.

# Update on the externalisation of the Audit Practice

**8** In our progress report to the April Audit Committee we provided an update on the outcome of the national procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years. Contracts in the London (South) Surrey & Kent area were let to Grant Thornton from 2012/13 on a five-year basis.

**9** The Commission Board have now confirmed the 'interim' auditor appointments for the first five months of 2012/13. The Audit Practice will remain as the interim auditor for Tonbridge & Malling Borough Council.

**10** The Commission has now written to all audited bodies to set out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission has proposed as appointed auditor the firm awarded the contract in that area, unless there are good reasons indicating this would be inappropriate. The Commission has proposed that Grant Thornton is the permanent auditor for Tonbridge & Malling Borough Council.

**11** To support the consultation process the Commission arranged introductory meetings in each contract area to give audited bodies an opportunity to meet the firm proposed as their auditor and hear its approach to the audits and how it plans to manage its new portfolio. The event covering London (South), Surrey and Kent was held on 3 May 2012 and was attended by the Chief Executive, the Director of Finance, and the Chief Accountant.

**12** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**13** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**14** Further details are available on the Commission's website. We will continue to keep you updated on developments. Against this background, the Audit Practice's focus remains 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.



## Other matters of interest

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

### Work programme and scale of fees 2012/13

**16** The Audit Commission's work programme and fee scales for 2012/13 have now been agreed. The [Work Programme and Scales of Fees 2012/13: Local Government - April 2012 document](#) sets out the planned work at local government, fire and police audited bodies during 2012/13, with the associated scales of audit fees.

**17** The Commission is reporting that the combination of outsourcing the in-house Audit Practice and internal efficiency savings has enabled it to pass on significant reductions in audit fees to audited bodies. These lower fees are fixed for five years irrespective of inflation.

**18** The work programme and fee scales were agreed following consultation. The [Work Programme and Scales of Fees 2012/13: Consultation Response - Local Government document](#) summarises the replies received from audited bodies and stakeholders and the Commission's response to the main issues raised by respondents.

### NFI Work programme and scale of fees 2012/13

**19** Following consultation the Audit Commission has now confirmed proposals for the 2012/13 NFI work programme and scale of fees.

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

**21** In recognition of the financial pressures currently facing public bodies the scale of fees for mandatory participants will remain the same as for NFI 2010/11.

# Audit Commission publications

**22** 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](http://www.audit-commission.gov.uk).

## The National Fraud Initiative: 2010/11 Annual Report (May 2012)

**23** Since 1996 the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error in the United Kingdom. Of this total, £813 million has been detected in England.

**24** Some 1,300 participating organisations from across the public and private sectors provide data. Participants include all local councils, police authorities, fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. Key data sets are provided by government departments and other national agencies. A number of other public sector and private sector bodies also participate on a voluntary basis. The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

**25** Since the last national report in May 2010 the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million).

**26** The total comprises outcomes already delivered of £91 million and estimated outcomes of £137 million. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

**27** The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£90 million), council tax (£50 million) and housing benefit (£31 million).

**28** In the past year the NFI data-matching exercise has also produced a number of other significant results;

- 164 employees were dismissed or asked to resign because they had no right to work in the UK;
- 235 properties were recovered for social housing;
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils;
- 731 people were prosecuted; and

- 31,937 blue badges and 51,548 concessionary travel permits were cancelled.

**29** The report notes that the NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention. The new service offers a range of options, including real-time and flexible batch data matching, which could help councils identify potential fraud in a number of areas. These include:

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against the Metropolitan Police’s Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

**30** Following the announcement of its intention to abolish the Audit Commission the government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate arrangements for the NFI.

## Contact details

**31** If you would like further information on any of the items in this briefing please contact either your District Auditor or Audit Manager.

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# 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
<b>Audit planning</b>		
2011/12 Audit fee letter		Issued April 2011
<b>Opinion</b>		
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 Commission.</p> <p>Our work to review material systems is now substantially complete. To date we have not identified any significant weaknesses in internal control which we need to bring to the attention of the Audit Committee.</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 have continued to liaise with officers on issues relating to the preparation of the 2011/12 accounts.</p> <p>In early 2012 the Audit Commission ran a regional final accounts workshop for local government finance staff involved in</p>	<p>Audit Opinion: September 2012</p> <p>Annual Governance Report:</p>

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
	<p>preparing financial statements. The Council's Principal Accountant attended this workshop.</p> <p>Our detailed work to review the 2011/12 financial statements will begin in June 2012.</p> <p>Further information on the work required to support our opinion on the financial statements is included in our 2011/12 audit plan, which was considered by the April Audit Committee.</p>	September 2012
Whole of Government Accounts	<p>We are required to audit the whole of government accounts consolidation pack.</p> <p>Our work will be performed following completion of the audit of the Council's financial statements.</p>	Audit report September 2012
<b>Value for Money Conclusion</b>		
	<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"> <li>■ securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position; and</li> <li>■ 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.</li> </ul> <p>Further information on our initial risk assessment and planned work is included in our 2011/12 audit plan, which was considered by the April Audit Committee.</p> <p>This work is currently in progress. Our findings will be reported in our Annual</p>	VFM Conclusion: September 2012

Area of work/risk identified in Audit Plan	Progress to date	Planned Output
	Governance Report.	
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"> <li>■ Housing and council tax benefit subsidy claim; and</li> <li>■ National Non-Domestic Rates Return</li> </ul>	<p>Certificate due November 2012</p> <p>Certificate due September 2012</p>
<b>Annual Audit Letter</b>		
	The Annual Audit Letter is a publicly-available document which summarises our findings under the Code of Audit Practice.	Annual Audit Letter October 2012

