

Governance

Committee

update

Chorley 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 Governance Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the Audit Commission's work programme and scale of fees for 2012/13.

2 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.

3 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.

Fiona Blatcher

Engagement Lead

19 June 2012

Progress report

Financial statements

4 My 2011/12 Audit Plan sets out my approach to the audit and risks I have identified. I presented my Audit Plan to the Audit Committee in January 2012.

5 My audit of your financial statements will commence in July. I will report the findings from my audit to the Governance Committee in September 2012.

6 My team is maintaining close liaison with the Council's finance team around technical issues, closedown timetable and audit requirements. These activities minimise the likelihood of any unexpected significant accounting issues arising later on in the closedown or audit process.

7 There are no issues or new audit risks which I wish to bring to your attention.

VFM conclusion

8 The criteria against which I make my assessment of your VFM 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.

9 I am currently undertaking my review of the Council's arrangements for securing Value for Money. I will also consider your final outturn position for 2011/12 and progress in delivering the 2012/13 budget before I report my findings in my Annual Governance Report in September.

Audit Commission work programme and scales of fees 2012/13

10 In April 2012 the Audit Commission published its “work programme and scale of fees for 2012/13”. This document sets out the work the Audit Commission and its auditor’s plan to undertake during 2012/13 and the associated scale of fees.

11 There are no changes in the work programme auditors are expected to undertake at each body, namely:

- complete a Code audit taking into account the auditor’s local assessment of risk
- audit of the Council’s Whole of Government Accounts return
- the value for money conclusion criteria remain “securing financial resilience” and “prioritising resources”
- certification work on a reducing number of claims and returns.

12 The Commission expects to publish a small number of national reports on the results of the audits at local government, fire and rescue authorities and police bodies.

13 The fees to cover the above work and the wider work of the Audit Commission have now been set and published. These are known as the scale fees. The fees set represent a 40% reduction on previous years and have been set for the next five years. Additionally for certification work, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee. This fee is based on actual certification fees for 2010/11.

14 The reductions in fee result from the significant reductions in the Audit Commission’s costs following internal efficiencies and the savings achieved from the outsourcing of its in-house audit practice. The impact for Chorley Borough Council is shown below:

Table 1: **Fee scales**

Table header	2011/12	2012/13 and next four years	Difference	
	£	£	£	%
Main audit scale fee	99,066	59,440	-39,626	-40
Certification work	20,000 (estimate)	20,000*	0	0
Total	119,066	79,440	-39,626	-40

**Note the scale fee for the certification work still includes the fee for auditing the Housing and Council Tax Benefits claim. This requirement may change with the move to the Universal Benefits regime.*

15 It is a matter for the auditor to decide the work necessary to complete the audit, and subject to approval by the Audit Commission, to seek to agree a variation to the scale fee with the audited body. As the 2012/13 main audit and certification scale fees for individual bodies are based on the fee for 2011/12, they already reflect the auditor's assessment of audit risk and complexity. Therefore the Audit Commission expects variations from scale fee to occur only where these factors are significantly different from those identified and reflected in the 2011/12 fees.

16 The Audit Commission is consulting all audited bodies about the appointment of their auditor for the start of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012. Following this appointment, the Council's auditor will complete their risk assessment for the purposes of completing the audit and will provide their audit plan for agreement with the Council.

Further information is available at: http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213fees/pages/individualfees_lgfire.aspx

Other matters of interest

National Fraud Initiative (NFI) 2010/11 National Report

17 On Wednesday 16 May 2012 the Audit Commission published the National Fraud Initiative (NFI) 2010/11 National Report. The National Fraud Initiative 2010/11 in England has identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million of outcomes not previously reported from earlier exercises. Over the same time period, £47 million of fraud, overpayments and error were identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million traced.

18 Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse since the initiative began.

19 The NFI is a data matching exercise. It compares information held by and between around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as dead and also in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

20 The report is supported by a Council Members' briefing and checklist, and case studies of successful outcomes both in the private sector and public sector.

NFI Work Programme and Scale of Fees 2012/13

21 On Wednesday 30 May 2012 the Audit Commission published the NFI Work Programme and Scale of Fees 2012/13. The Audit Commission consulted on proposals for the 2012/13 NFI work programme and scale of fees from 10 February to 23 March 2012. The consultation 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.

22 In recognition of the financial pressures that public bodies are facing in the current economic climate, the consultation proposed that the scale of fees for mandatory participants would remain the same as for NFI 2010/11.

23 Following the consultation, the NFI Work Programme and Scale of Fees 2012/13 confirms these proposals. The scale fee for Chorley Borough Council will remain unchanged.

Public Sector Internal Audit Standards

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

25 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.

26 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).

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

Payment by results

27 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.

28 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.

29 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.

30 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.

31 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.

32 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.

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

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

The rights of local electors

The Audit Commission has published an updated version of *Council accounts: a guide to your rights* [which also covers **Police Authorities / Fire and Rescue Services**]. 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.

34 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.

35 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.

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

NAO role in local VFM studies

36 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.

37 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.

38 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.

39 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

40 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.

41 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.

42 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.

See

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

CIPFA Treasury Risk Management Toolkit

43 CIPFA recently published a Treasury Risk Management Toolkit to provide further practical help for local authorities to understand and manage the treasury risks in their debt and investment portfolios.

44 The toolkit looks at an authority's total debt and investment portfolios in the round, and provides a suite of reports and techniques for treasury practitioners to define the authority's risk appetite, measure the risks it is taking relative to its risk appetite, and manage the portfolio accordingly.

45 Written by and for treasury practitioners, the toolkit intends to provide both a conceptual framework and a practical set of tools for managing treasury risk. As well as addressing the major types of risk, the Toolkit also examines key areas of risk which may be less understood, including a detailed analysis of LOBOs and how to approach them and the evaluation of debt restructuring operations.

Contact details

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

47 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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