

# **External Audit**

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# **Progress**

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# **Report**

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**Uttlesford District 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 Performance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It also includes an update on the externalisation of the Audit Practice.
- 2 This paper seeks to highlight key emerging national issues and developments which may be of interest to members of the Performance and Audit Committee.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager, Emma Patchett using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://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.

Debbie Hanson

District Auditor

15 February 2012

## 2010/11 Audit Progress

Audit output	Timescale in plan	Status	Comments on current position
Opinion audit plan	December 2010	Complete	Our 2010/11 Audit Plan is complete. A copy of the plan was presented to Members in February 2011.
Interim audit report	June 2011	Complete	<p>The 2010/11 pre-statement audit is complete. This work informed our post-statement audit completed between July and September 2011.</p> <p>During this pre-statement audit we also completed an Information Technology Risk Assessment (ITRA) to assess the strength of the IT control environment and to consider the IT controls within the financial systems. Our work concluded that the IT environment at the Council is low risk.</p> <p>An Interim Audit Report was presented to officers following completion of our work.</p>
Review of IFRS restated 2009/10 accounts	N/A	Complete	2010/11 was the first year that the Council was required to produce their accounts in accordance with International Financial Reporting Standards (IFRS). In preparation for this, the Council restated their

Audit output	Timescale in plan	Status	Comments on current position
			2009/10 financial statements in IFRS format. These balances formed the comparatives in the 2010/11 accounts. Our review of this exercise found that the Council had prepared well for the transition.
Annual governance report	September 2011	Complete	Our Annual Governance Report detailed the significant findings from our 2010/11 audit of the financial statements and value for money conclusion work. This was presented to Members in September 2011.
Opinion on the financial statements and value for money conclusion	September 2011	Complete	Following Member approval of the final version of the financial statements, we issued our unqualified opinion on the accounts and value for money conclusion.
Final accounts memorandum (to the Chief Finance Officer)	November 2011	N/A	All the significant matters arising from our 2010/11 audit were reported in our Annual Governance Report. No additional Final Accounts Memo was deemed necessary due to the low number of errors found during the accounts audit.
Grant claims report	February 2012	Complete	We have issued a report summarising the findings from our certification of the Council's grant claims. This report is included within these papers for the attention of Members.
Annual audit letter	November 2011	Complete	Our Annual Audit Letter is included within these papers for the attention of Members. This document brings together all the key messages from 2010/11 and brings to a close our audit for the year.

## 2011/12 Audit Progress

Audit output	Timescale in plan	Status	Comments on current position
Opinion audit plan	January 2012	Complete	Our 2011/12 Audit Plan is complete and has been agreed with the Council. A copy is included within these papers for the attention of Members. This plan outlines how we will complete our audit and also the specific risks that we will look to address through our work.
Pre-statement audit	January to April 2012	In progress	The pre-statement audit is now underway. We have completed the first phase of this work which involves documenting the financial systems. To date, no matters have arisen that we wish to report to you.
Annual governance report	September 2012	Not yet due	
Opinion on the financial statements and value for money conclusion	September 2012	Not yet due	
Final accounts	November 2012	Not yet due	This will only be issued if required.

Audit output	Timescale in plan	Status	Comments on current position
memorandum (to the Chief Finance Officer)			
Grant claims report	October 2012	Not yet due	
Annual audit letter	October 2012	Not yet due	



# Other Matters of Interest

## Government response to consultation on the future of local public audit

**5** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**6** The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**7** Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term).
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.

- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

8 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

## Update on the externalisation of the Audit Practice

9 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. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

10 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 compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission set out in January 2012 the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.
- Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients

on 19 December 2011 setting out more details on this 'interim' appointment.

- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.
- 11** Further details are available on the Commission's website. We will continue to keep you updated on developments.
- 12** 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.
  - Managing a smooth transition from the Audit Practice to your new audit provider.

## Dealing with the economic downturn

**13** On 17 November 2011, the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

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

**15** The key findings in the report are:

- 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; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

**16** 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

**17** The National Fraud Agency issued a report in November 2011 on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

**18** 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.

- 19** 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.
- 20** The Committee may be interested to note that there have been a number of recent examples of procurement frauds in both local government and the NHS involving fraudulent changes to bank account details. In one recent example, a shared services provider was contacted to change the bank details for a construction company which was being used for a major capital development. 'Authentic' looking supporting documentation was provided to support the request.
- 21** We suggest that it would be prudent for the Council to review current arrangements for changes to bank account details and strengthen controls if necessary.

## **Protecting the Public Purse 2011**

- 22** In November 2011, the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'
- 23** 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.
- 24** 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.
- 25** 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.
- 26** 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.
- 27** 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.
- 28** 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.
- 29** In addition to the core report, there are separate briefings to specifically aid governors in schools.

## Localism Act 2011

**30** On 15 November 2011, the Localism Bill received Royal Assent.

**31** 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.

**32** 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 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; 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.

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

## Openness and accountability in local pay

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

**35** 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.

**36** 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.

**37** 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.

## 2010/11 accounts

**38** In December 2011, the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

**39** The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

**40** Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

**41** The challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

**42** On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

**43** This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

**44** While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

**45** The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;
- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the

previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

**46** The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

**47** The Audit Commission is seeking views on the issues raised within the briefing and has invited comments by 16 March 2012 - further information on this is available on the Audit Commission's website.

## **Managing workforce costs**

**48** The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

**49** The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

**50** As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

**51** Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

**52** The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

**53** The report is supplemented with a briefing for elected members that includes a number of 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 and communities.

**54** The questions are in two parts:

- the information that should be available to members about the workforce; and
- the savings strategies councils could follow in the light of that information.

## **CIPFA's Prudential Code for Capital Finance**

**55** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities (the Code). This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**56** The Code also includes guidance on the treasury management implications of the housing self-financing reforms.

**57** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Code in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**58** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**59** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**60** The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

## **2011/12 accounts: CIPFA guidance notes for practitioners**

**61** CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and



- interests in joint ventures.

**62** The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops.

## **Local Government Finance Bill**

**63** In December 2011, the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

**64** The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

**65** The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

## **Housing Revenue Account self financing determinations**

**66** The Department for Communities and Local Government (DCLG) published a consultation exercise on the Housing Revenue Account (HRA) self-financing determinations.

**67** The consultation - which closed on 6 January 2012 - can be found on the DCLG's website and covers five draft determinations, the key ones of which are:

- the amount each local authority will either pay the government or receive from the government on 28 March 2012 to exit the current subsidy system, and the way in which the payments will be made; and
- the cap on the amount of housing debt each council may hold.

## Guide to HRA self financing

**68** The introduction of self-financing to the housing revenue account (HRA) in April 2012 will fundamentally change the way that local authority housing is funded.

**69** CIPFA has therefore recently produced a publication which brings together the latest guidance to assist those working in the sector to understand the changes and help with their implementation.

## Board governance essentials

**70** The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

**71** 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

**72** This guide may provide interesting reading for all members.

## Contact details

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

**74** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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