

External Audit

Progress

Report

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 as at 3 August 2012. 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) 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

3 August 2012

2011/12 audit progress

Audit output	Timescale in plan	Status	Comments on current position
Audit plan	January 2012	Complete	Our 2011/12 Audit Plan is complete and has been agreed with the Council. A copy of this Plan was presented to the February Performance and Audit Committee.
Pre-statement audit	January to April 2012	Complete	<p>The pre-statement audit is complete. During this phase of our work we documented the systems that have a material impact upon the financial statements and tested the controls within those systems. We relied upon the work of Internal Audit where ever possible. No matters have arisen that we wish to report to you.</p> <p>During our pre-statement audit, we also undertook an IT risk assessment to assess your IT environment. This concluded that the IT environment is sound and that there is a low risk of material misstatement to the financial statements from your IT controls.</p>

Audit output	Timescale in plan	Status	Comments on current position
Annual governance report	September 2012	Not yet due	<p>The Council submitted their draft accounts to us by the statutory deadline. Our audit of the draft statements is now underway. We are making good progress and are on track to meet the deadline of 30 September. The findings of our audit will be set out in our Annual Governance Report which will be presented at the September Performance and Audit Committee.</p> <p>We have completed our initial review of the value for money arrangements in place at the Council, and will finalise this assessment, together with the final accounts audit in September 2012. To date, no significant issues have been identified that would adversely impact our value for money conclusion.</p>
Opinion on the financial statements and value for money conclusion	September 2012	Not yet due	Our opinion on the financial statements is due to be signed following the Performance and Audit Committee on 27 September 2012.
Final accounts memorandum (to the Chief Finance Officer)	October 2012	Not yet due	This will only be issued if required.

Audit output	Timescale in plan	Status	Comments on current position
Grant claims audit	October 2012	Not yet due	As auditors appointed by the Audit Commission, we are responsible for the audit of your grant claims and returns. Work on the housing and council tax benefits scheme is ongoing. We are also on track to complete the audit of the remaining claims and returns by their required deadlines.
Grant claims report	February 2013	Not yet due	The final report on your grant claims is usually issued between December and February. As this will be after the externalisation of the Audit Practice, the responsibility for issuing this report will rest with the incoming firm, Ernst and Young.
Annual audit letter	October 2012	Not yet due	This will be issued once we have issue our opinion on the financial statements and value for money conclusion.

Matters of interest

Update on outsourcing the work of the Audit Practice

5 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies. Ernst and Young were awarded the contract for the Eastern area, which includes Uttlesford District Council, and the meeting with clients was held on 14 May.

6 The Commission has in parallel commenced consultation on the appointment of auditors to individual bodies and confirmed those appointments at its Board meeting on 26 July 2012. On 31 July, the Commission wrote to chief executives of all principal bodies to inform them of the Board's decision. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

7 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

8 I do not anticipate that there will be any such part-completed work in respect of my audit of Uttlesford District Council.

Update on the residual Audit Commission

9 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

10 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

11 More recently, the Board of the Audit Commission has announced the appointment of Marcine Waterman as Controller of Audit with effect from 1 September 2012. Marcine is currently the Commission's Director of Audit Policy and Regulation.

12 Eugene Sullivan will continue as the Audit Commission's Chief Executive until the outsourcing project has been successfully completed.

2012/13 audit fees

13 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on 11 April 2012.

14 As a result of the savings achieved from the procurement exercise and the Commission's own internal efficiencies, the scales of fees local government bodies will now be reduced by 40 per cent for 2012/13. The scale fee for Uttlesford District Council for the 2012/13 audit is £69,654 compared to a fee of £116,090 for 2011/12.

15 As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

Public Sector Internal Audit Standards

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

17 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.

18 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).

Payment by results

19 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.

20 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.

21 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.

22 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.

23 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.

24 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.

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

The rights of local electors

26 The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. 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.

27 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.

28 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.

NAO role in local VFM studies

29 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.

30 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.

31 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.

32 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

33 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.

34 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.

35 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.

Key considerations

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

- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?
- Are members of the Audit Committee familiar with the rights of local electors in relation to the external audit of the accounts?

Contact details

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

38 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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