

Progress Report

June 2010

Brent London Borough

Audit 2009/10

Audit Committee 15 June

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Introduction

- 1 The purpose of this progress report is to brief the Audit Committee on work currently being planned or undertaken by the Audit Commission.

Audit Progress

- 2 Our 2009/10 audit has commenced. We have completed our initial opinion planning procedures and are currently performing our review of key financial systems. We aim to finalise our controls testing in June 2010.
- 3 The Audit Commission has sent to all Councils, LSPs and other affected bodies a letter communicating that CAA work has stopped following the new government's recent announcement. We have included a copy of at Appendix 3.
- 4 We have finalised our Performance management follow up, as detailed in our 2009/10 Audit plan. The findings are summarised below:
 - Good progress has been made to implement all the recommendations of the previous review with specific actions taken to improve systems and processes. We have followed up recommendations from our most recent report in 2008. One recommendation was made to improve on-line partnership information in accordance with the partnership working guidance. This has been reported and agreed with officers. Our report is included on the agenda for the Audit Committee.
- 5 We have completed the fieldwork on phase two of our Health inequalities review, as detailed in our 2009/10 Audit plan. We expect to issue a report setting out our findings, together with any recommendations by the end of June 2010.
- 6 We have agreed our fee for 2010/11 with the Director of Finance and Corporate Resources at a meeting on the 22 March 2010. The total indicative fee for the audit for 2010/11 is for £488,000 (excluding VAT), which compares with the planned fee of £470,000 for 2009/10. This is included on the agenda for the Audit Committee.
- 7 The Audit Commission has recently finalised its review of audit fees for Pension Fund audits. We will shortly meet and agree the fee for the 2010/11 audit with the Director of Finance and Corporate Resources.

International Financial Reporting Standards

- 8 We have summarised the International Financial Reporting Standards (IFRS) briefing papers for Local government issued since our last progress report.

Countdown to IFRS - Identifying and accounting for leases (17 March 2010)

- 9 [Countdown to IFRS](#), published in February 2010, we said that we would be issuing a series of briefing papers covering the technical issues local authorities need to address now if they are to achieve a smooth transition to IFRS. This is the first in that series and looks at the issues arising from the introduction of International Accounting Standard (IAS) 17: Leases.
- 10 In our November 2009, survey, auditors assessed only 14 per cent of authorities as on track to deliver IFRS financial statements compliant with IAS 17 for 2010/11. Twenty-seven per cent were assessed as having major issues and 59 per cent with minor issues.
- 11 Authorities need to have a detailed plan to ensure they identify all arrangements falling under IAS 17 and that they account for such arrangements correctly. This briefing paper sets out some of the key issues and practical examples that authorities should consider as part of their work on the review of lease arrangements.

Countdown to IFRS - Checklist for councillors (17 March 2010)

- 12 From 2010/11 local government will be required to prepare accounts in accordance with international accounting standards (IFRS). A failure to achieve a successful transition to IFRS would cause significant reputational damage not only to individual authorities but to the local government sector as a whole.
- 13 Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that avoidable additional costs will be incurred if the implementation timetable is not well managed or is allowed to slip. The transition process is a real test of self regulation by local government.
- 14 The audit committee (or its equivalent) needs to be sufficiently aware of the requirements of IFRS to ensure the transition project is on track. In order to help members discuss their IFRS transition plan with relevant officers we have set out a number of suggested questions.

Countdown to IFRS: Accounting for non-current assets (17 May 2010)

- 15 The latest in our series of technical briefing papers considers the detailed accounting requirements and the potential issues arising from introducing international financial reporting standards (IFRS) for Accounting for non-current assets, formerly referred to as fixed assets.

International Financial Reporting Standards

- 16 Accounting for non-current assets considers the following issues:
- potential reclassification implications (IFRS 5 and IAS 40);
 - valuation of property, plant and equipment (IAS16);
 - componentisation (IAS16);
 - impairment of assets (IAS36);
 - intangible assets (IAS38); and
 - government and non-government grants (IAS20).
- 17 Practical examples to help explain potential issues local government bodies may experience when implementing the standards have been provided.
- 18 You can visit www.audit-commission.gov.uk/IFRS for more information about IFRS and implementation work.

Recent Audit Commission publications

- 19 The Audit Commission produces a regular Councillors' Update. This e-mailed newsletter aims to keep councillors up to date with the Commission's current work, such as national reports and studies. News stories containing details of specific tools and case studies will direct councillors to information that they can use in their work. If you have not automatically received your copy of Councillors' Update, please subscribe via the following link:

[Councillor Update newsletter - Audit Commission](#)

Scale of fees for the audit of local government pension funds - 2009/10 and 2010/11 (25 May 2010)

- 20 In October 2009 the Audit Commission announced a review of the costs of auditing local government pension funds, based on the first separate audits in 2008/09. We've now completed this review and the Commission's Board has approved a new scale fee formula to be applied to pension fund audits.

Doncaster Metropolitan Borough Council: Corporate Governance Inspection (19 April 2010)

- 21 The Audit Commission carried out this inspection because of repeated evidence, over more than 15 years, that the council is not well run.
- 22 The report says that 'The Council is failing in its legal obligation to make arrangements to secure continuous improvement in the way in which it exercises its functions, having regard to a combination of economy, efficiency and effectiveness.'
- 23 There are three inter-related issues which mean that Doncaster Metropolitan Borough Council is failing in its legal duty to make arrangements to secure continuous improvement in the exercise of its functions. These three issues are individually divisive and collectively fatal to good governance, each serving to compound and magnify the negative impacts of the others. These issues also mean the Council lacks the capacity or capability to improve in the next 12 months.
- 24 The three issues are as follows.
- The way the Council operates to frustrate what the Mayor and Cabinet seek to do.
 - The lack of effective leadership shown by the Mayor and Cabinet.
 - The lack of leadership displayed by some chief officers, and the way they have all been unable to work effectively together to improve services.
- 25 The report recommends that the Secretary of State should exercise his powers under section 15 of the Local Government Act 1999 to give a Direction or Directions to Doncaster Metropolitan Borough Council to address the deep-seated culture of poor governance identified by our inspection. Recommendations in the report include:

Recent Audit Commission publications

- the behaviour of the Mayor and some key councillors is no longer allowed to obstruct the proper governance of the council;
- the role of the Mayor and Cabinet as the Executive is properly supported by officers, and the Overview and Scrutiny function ceases to operate as if it were an alternative Executive function;
- bullying and intimidating behaviour is eliminated;
- there is a rapid improvement in the performance of key services;
- the Council plays an effective role in working with external partners to improve the prospects for the people of Doncaster;
- a high calibre Chief Executive who commands the respect of the Mayor and the Council is in place; and
- under the leadership of a new Chief Executive, the chief officers work collectively to deliver service improvement.

Tenant involvement (31 March 2010)

- 26** This discussion paper is the result of the first joint research project between the Audit Commission and the Tenant Services Authority (TSA). The project set out to assess the progress of social landlords in involving their tenants and to highlight the similarities and differences in approaches across the sector.
- 27** The results of the research are also being used by the TSA and the Audit Commission to develop our approaches to national and local standards and inspection.
- 28** This paper provides a snapshot of progress on tenant involvement and identifies the key challenges for social landlords in engaging with their tenants under co-regulation. It is intended to stimulate discussion in the sector and to provide information and good practice examples for policy makers, landlords and tenants.
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- 30** The paper has five main parts that:
- explain the role of tenant involvement in social housing;
 - discuss the language of empowerment;
 - describe what tenants want from their landlords;
 - assess the progress landlords have made since 2004; and
 - consider the impact of the regulatory changes.

National Fraud Initiative report 2008/09 (20 May 2010)

- 31** The National Fraud Initiative (NFI), the UK-wide antifraud programme, helped trace £215 million in fraud, error and overpayments in 2008/09. Since the initiative's start in 1996, the programme has helped detect £664 million.

32 The NFI is a data matching exercise. It compares information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 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.

By mutual agreement (16 March 2010)

33 The study looked at council chief executives' job moves over 33 months, and found that:

- agreed severance packages for 37 council chief executives totalled £9.5 million, 40 per cent of which was in pension benefits;
- three in every ten outgoing council chief executives received a pay-off;
- only six took up other senior council jobs within a year;
- one in seven single tier or county councils had paid off a chief executive, and this rate seems to be growing; and
- the average cost to councils of each severance package was almost double the annual basic salary, but in four cases was more than triple.

34 Severance deals can be in the interests of the council and the taxpayer. But our research shows that not all such deals are justified, that competent chief executives have sometimes lost their jobs needlessly, and that less effective individuals have been paid-off rather than dismissed.

35 The Commission wants all deals to be more transparent. They should be reviewed by scrutiny or remuneration committees, with details published shortly after they are agreed. And councils should consider whether to include so-called 'pre-nuptial' clauses in contracts, specifying the grounds and payment for severance.

36 The report found that rapid re-employment in local government is unusual – only six out of the 37 returned to a senior council post within a year, and over 80 per cent have yet to return to local government. However, a way should also be found of recouping some of a pay-off where an executive moves quickly into another top council job.

37 In the interests of openness and transparency, the Audit Commission is making submissions received, following our call for evidence, for the By Mutual Agreement: Severance payments to council chief executives study available. These can be viewed below. A copy of responses will also be placed in the House of Commons library.

Under Pressure: Tackling the financial challenge for councils of an ageing population (18 February 2010)

38 Councils face the challenge of an ageing population as public spending reduces. This report says most councils do not know enough about the costs of their ageing population. They may also miss the savings that could flow from preventive services and better work with other organisations.

Appendix 1 – Key Deliverables 2009/10

Table 1 Progress on Key Deliverables for 2009/10

Product	Timing	Current position
Planning		
Audit Plan	January 2009- March 2009	Plan presented to Audit Committee in June 2009
Opinion		
Work on financial systems	December 2009 – June 2010	This is in progress. We have completed our Opinion plan and presented to Audit Committee in March 2010
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2010	
Use of Resources		
Health Inequalities phase 1 phase 2	May 2010 October 2010	Phase 1 completed and report issued. Phase 2 nearing completion.
Performance management follow up	June 2009 to December 2009	Review completed, we are in the process of agreeing the report with officers
HR follow up	December 2009 to February 2010	Review completed, and report presented to Audit Committee in March 2010
Project management review	January 2009 to March 2010	In progress

Appendix 1 – Key Deliverables 2009/10

Product	Timing	Current position
Value for money conclusion	June 2010 to September 2010	We will consider the work done under Use of resources and local projects to issue our conclusion
Use of resource judgements	February to July 2010	This work has been stopped based on the new government's direction

Appendix 2 – Key deliverables 2010/11

Table 2 Progress on Key Deliverables for 2010/11

Product	Timing	Current position
Planning		
Audit Plan	January 2010- March 2010	Plan presented to Audit Committee in June 2010
Opinion		
Work on financial systems	December 2010 – June 2011	
Financial statements; <ul style="list-style-type: none"> • opinion; • Annual Governance Report; and • opinion memorandum 	July - September 2011	
Use of Resources		
Building schools for the future		
Project management review		
Value for money conclusion	June 2011 to September 2011	
Use of resource judgements	February to July 2011	This is no longer applicable. We will update the Committee once more information becomes available
Reporting		
Annual Audit and Inspection Letter	December 2011	

Appendix 3 – Audit Commission letter regarding CAA

28 May 2010

Chief Executives
All English Single Tier and County Councils

Direct line 0844 798 2467
Email g-davies@audit-commission.gov.uk

Dear Colleague,

I am writing on behalf of the CAA inspectorates to let you know how we propose to bring work on CAA to a conclusion in the light of the new government's recent announcement.

All work on updating the area assessment and organisational assessment will cease with immediate effect. These assessments on the Oneplace website will not now be updated. We will not be reporting new red or green flags in the area assessment nor updating the text around existing flags.

We will not be issuing new scores for the use of resources assessments, the managing performance assessments or the overall organisational assessments.

Ofsted has a statutory obligation to carry out an annual assessment of children's services. Pending any further decisions Ofsted will continue with the children's services assessment for 2010.

The Care Quality Commission is currently considering the implications of the ending of CAA for its assessment of adult social care with the Department of Health. They will also discuss the matter with the Association of Directors of Adult Social Services and communicate with councils as soon as this is finalised.

Your appointed auditor will continue to deliver the audit in line with the statutory Code of Audit Practice under which they are required to give a value for money conclusion alongside their opinion on the financial statements. Auditors will need to complete such work as they consider necessary to enable them to give this conclusion, but in practice we envisage they will be able to discharge this responsibility using work completed to date for the use of resources assessment. Your auditor will report any significant findings in the annual audit letter but will not be reporting a score for the use of resources.

We have already announced that we are reviewing the approach that auditors will take in future to the value for money conclusion from 2010/11.

We are in discussions with the government, the LGA and other representative bodies about the future approach to inspection. In the meantime, the Audit Commission will continue with the limited programme of risk-based inspections currently underway. Other inspectorates will continue with their standalone inspection programmes. We will inform you of any developments in our approach as soon as they have been agreed.

Your CAA Lead and appointed auditor will of course be available to discuss the practical implications of these changes. You can also phone our helpline on 08450 522616. I would like to thank you for your cooperation with our staff over the short life of CAA. We will of course consult you about the future approach to audit and inspection.

Yours sincerely,

Gareth Davies
Managing Director, Local
Government, Housing & Community Safety
Audit Commission

DRAFT

The Audit Commission

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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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