

Audit Committee update

London Borough of Brent

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 Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager 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.

Andrea White
District Auditor
27 June 2012

Progress report

Financial statements

Interim audit

5 We are nearing completion of our interim audit, which includes:

- documentation of key financial systems;
- walkthroughs of transactions in key financial systems; and
- review of management arrangements in place to mitigate significant risks facing the Council.

6 Subject to our final review processes, there are no significant findings to report to the Committee at present.

Preparation of the 2011/12 financial statements

7 We have worked together with finance officers to follow up our recommendations from the 2010/11 Annual Governance Report, particularly to monitor closely the arrangements for preparing the 2011/12 financial statements. This has been a beneficial process to both parties and will assist in mitigating the risk of unforeseen problems emerging later in the accounts preparation and audit process. The work has involved:

- holding weekly meetings, focusing on progress against the Council's detailed closedown plan;
- monitoring the Council's progress on managing the bank reconciliation. We have completed our audit of the main bank reconciliation at 31 March. This work did not identify any issues;
- reviewing work on clearing old debtors and creditors balances which are not recoverable or payable;
- issuing audit working paper checklists early (in January) and disclosure checklists to assist the Council's in its preparation of its accounts and working paper; and
- confirming with management that there are no significant changes to accounting for the Council's PFI schemes.

8 Overall, the Council's arrangements to prepare the 2011/12 financial statements demonstrate significant improvement in comparison with 2010/11. We hope that this will lead to a much more straightforward audit than in the previous year.

9 Monitoring of closedown plans indicates that the Council are on track to produce a complete set of financial statements by 30 June. However, there are a couple of key areas that the Council is still working on at the time of writing, which need to be completed:

- internal valuations of housing PFI assets; and
- resulting PFI and lease accounting entries.

Officers are confident that these should be resolved.

Other Final Accounts Audit Work

10 We have also taken the opportunity to undertake some early 'post-statements' auditing to reduce the workload on auditors and officers in July and August. This has involved:

- substantive testing of expenditure transactions up to the end of December 2011;
- substantive testing of non-grant income transactions up to the end of December 2011; and
- carrying out (in line with our cyclical testing strategy) a full test for ownership and existence of the Council's property, plant and equipment.

The income and expenditure work is complete, subject to finalising our internal review processes. There are no material errors to report.

We have completed approximately 80% of the testing on property, plant and equipment. We have requested that the Council provide us with the remaining evidence at the start of the final accounts audit. No issues have been identified to date.

Technical accounting issues

11 We have also worked with finance officers on the following areas with new or complex accounting. We have discussed each below:

- componentisation of housing stock; and the Council's continued use of the Major Repairs Allowance (MRA) as a proxy for depreciation on the housing stock;
- accounting treatment and ownership of foundation and academy school assets;
- accounting for self-financing of the Housing Revenue Account; and
- proposed accounting entries for the Movement in Reserves Statement (MiRS)..

On depreciation of the housing stock, the Council has provided us with accounting advice from SECTOR to justify their usage of MRA as a proxy for depreciation. We have asked for further evidence before we can conclude that no material misstatement will arise.

The Council has taken the decision to remove foundation schools from the balance sheet, as well as two secondary schools that have achieved academy status during 2011/12. We agree with the Council's proposed approach, but will need to review the accounting entries as part of our final accounts audit work.

The Council is aware of accounting requirements for self-financing, and were notified of their £198m settlement from the Secretary of State in March 2012.

The MiRS was an area of significant weakness for the Council in 2010/11, but officers have made significant progress in improving arrangements for

2011/12. We have reviewed proposed accounting entries for the MiRS, and based on the information presented to us, they comply with CIPFA guidance in this area.

Work on these issues continues, but we have made good progress to date. This underlines the importance of working to resolve key technical issues in advance of the main audit.

VFM conclusion

12 Our work on the Council's arrangements to secure economy, efficiency and effectiveness for 2011/12 is underway and will be reported in our Annual Governance Report in September. There are currently no issues to report.

Other areas of work

Correspondence

13 The main focus of recent correspondence to us has been the Council's policy on restructuring library services. We are seeking clarifications from officers on those issues raised which fall within our responsibilities as external auditor, and will respond to local correspondents accordingly.

Grant claims

Housing and Council Tax Benefits

14 We have recently completed follow up work on qualification issues arising from the Council's 2010/11 housing and council tax benefits claim.

15 The Department for Work and Pensions (DWP) asked us to follow up an issue where the Council had incorrectly classified overpayments where claimants had deceased as 'eligible' rather than technical overpayments. This misclassification meant that the Council received more subsidy.

16 We tested an additional 40 cases in line with DWP guidance. We combined our findings with those from our initial audit. As a result, we recommended that £38,060 be reallocated from eligible overpayment cells to technical overpayment cells. The financial impact of this change is a reduction in subsidy of approximately £15,000.

17 We have commenced testing samples of cases as part of our work on the Council's 2011/12 benefits claim, to minimise the volume of work required in October, immediately before the change of external auditor.

18 The auditor deadline for this claim is 30 November.

Other grant claims

19 We also need to complete certification work on the following grant claims in advance of our 31 October transfer to KPMG:

- CFB06 (Pooling of Housing Capital Receipts) – auditor deadline 28 September;

- LA01 (National Non-Domestic Rates) – auditor deadline 28 September;
- PEN05 (Teachers’ Pensions Return) – auditor deadline 30 November;
and
- HOU01 (HRA subsidy) – auditor deadline 30 December.

20 We will be discussing with officers the practicalities of advancing this audit work.

Audit Team Change

21 Your Audit Manager, Paul Viljoen, has recently left the Audit Commission, and Martin Searle, Senior Audit Manager, has replaced him, and will be in attendance at the meeting.

Update on outsourcing the work of the Audit Practice

22 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.

23 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. 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.

24 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.

Update on the residual Audit Commission

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

26 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. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

Other matters of interest

2012/13 audit fees

Fee scales for 2012/13 audits of local government and NHS bodies

27 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 Wednesday 11 April 2012.

28 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.

29 The scale fees and changes for the London Borough of Brent are as follows:

	2012/13 (£)	2011/12 (£)	% Change
Main audit	263,520	439,200	-40
Certification of grant claims	39,500	84,336	-53

Fee scales for 2012/13 National Fraud Initiative

30 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

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

32 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11. For Brent the fee is £4,150.

2010/11 National Fraud Initiative

33 In May 2012 the Audit Commission published the results of the NFI for 2010/11.

34 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

35 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

36 The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

37 The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

38 The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

39 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.

Public Sector Internal Audit Standards

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

41 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.

42 The new unified set of internal audit standards is yet to be issued but 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

43 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.

44 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.

45 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.

46 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.

47 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.

48 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.

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

The rights of local electors

50 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.

51 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.

52 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

53 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.

54 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.

55 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.

56 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

57 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.

58 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.

59 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

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

- Has the Committee considered the questions set out in the Audit Commission's NFI briefing for elected members? (see paragraph 39 above)
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

Contact details

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

62 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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